



KRISHNA DEFENCE AND ALLIED INDUSTRIES LTD.

FORMERLY KNOWN AS KRISHNA ALLIED INDUSTRIES LIMITED

DEFENCE | SECURITY | DAIRY | MEGA KITCHEN

Date:- 15.11.2023

To,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex
Bandra (East),
Mumbai - 400 051

Symbol: - KRISHNADEF
ISIN: - INE0J5601015

Subject: Transcript of Earnings Call

Respected Sir/ Ma'am,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, please find enclosed herewith the transcript of the Earnings Call held on 09.11.2023 at 01:00 p.m.

Kindly take the same on the record.

Thanking You,
For Krishna Defence and Allied Industries Limited

Ankur Ashwin Shah
Managing Director
DIN: 01166537

REGISTERED OFFICE: 344, 3RD FLOOR, A TO Z INDUSTRIAL ESTATE, GANPATRAO KADAM MARG, LOWER PAREL, MUMBAI - 400013, MAHARASHTRA, INDIA.
TEL NO. +91 22 4220 3800-99(100 LINES) | FAX NO. +91 22 4220 3888

REGIONAL OFFICE: 207-208, ATLANTIS HERITAGE, VADIWADI ROAD, SARABHAI COMPLEX, VADODARA-390 023, GUJARAT, INDIA, TEL. NO. +91 265 2960085

PLANT I: 121/9 & 20, GIDC, KALOL - 389330, DISTRICT PANCHMAHALS, GUJARAT, INDIA, TEL. NO. +91 2676 235452, 237145

PLANT II: 503A, GIDC, HALOL - 389350, DISTRICT PANCHMAHALS, GUJARAT, INDIA, TEL. NO. +91 2676 225295

info@krishnaallied.com | www.krishnaallied.com | CIN NO. U74900MH2013PLC248021 | GST NO. 24AAFCK3430J1ZQ



KRISHNA DEFENCE & ALLIED INDUSTRIES LTD

H1'FY24

POST RESULT CONFERENCE CALL

November 09, 2023 1:00 PM IST

Management Team

Ankur Shah - Managing Director
Piyush Patel - Chief Financial Officer

Call Coordinator



Strategy & Investor Relations Consulting

Presentation

Vinay Pandit:

Ladies and gentlemen, I welcome you all to the H1'FY24 Post Earnings Conference Call of Krishna Defence and Allied Industries Limited. Today, on the call from the management we have with us, Mr. Ankur Shah, Managing Director; and Mr. Piyush Patel, Chief Financial Officer.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements, which may involve risks and uncertainties. Also, a reminder that this call is being recorded. I would now request to the management to quickly run us through the key performance highlights of the quarter, the growth plans and the visions for the coming year, post which we will open the floor for Q&A. Over to you, Ankur.

Ankur Shah:

Thank you, Vinay-ji. Good afternoon, ladies and gentlemen, and thank you for coming for the earnings update for half yearly FY24. While some of you may already be familiar with our company, there are others who may not have the chance to learn about us. To ensure everyone is on the same page, I'll provide a brief overview of our company. So, we put up the entire presentation on the exchange and on our website also. So, I'm just running through the key slides of the presentation to just to give you a glimpse of what we are doing.

I am Ankur Shah, I'm the Managing Director of the company. I am a production engineer from Fr. Agnel College at Bandra. And I've been with the company since June of 2000.

The company was started by my father, late Mr. Ashwin Shah. He was a double engineer himself, electrical and mechanical. We started in the year 1997 as an engineering company, manufacturing equipment for the milk and the dairy industry. And somewhere around 2006-07, we got an opportunity to work for a particular product called the Bulb Bar for the naval ships for the defence. And we grabbed the opportunity with both hands and we are continuing work on the same.

We have our Head Office based in Mumbai at Lower Parel. We have two plants. The one at Halol is where we manufacture, Halol in Gujarat. It's about 40-odd kilometres from Baroda. It's about 60,000 square-feet-odd. We manufacture equipment for defence and homeland security that we're producing. And Kalol is our traditional plant measuring about close to 40,000 square feet, where we are doing

the traditional products. So, both the factories are up and running as of now.

We are very thankful to have a very good team with us with which we can do this kind of development work per se. So, our company boasts of an in-house research team. They are an NABL approved lab also, which plays a big role in developing homegrown defence solutions that replace imported products. So, we've been a company, we've been trying to focus on imported products that could be indigenized and used by the services, all three services per se.

We have a dedicated team of over 250 people. We are proud to contribute to the nation building through our engineering skills. We have a group comprising about 28 engineers, a few MBAs, who help us strategize on the plans and also help us develop new products that we are looking to indigenize and go further.

We just get on to the products that we do. One of the prime products that we do is the steel bulb bars. Now, steel bulb bars are basically profiles, which are used as stiffeners for hull construction of warships, naval ships. And these are used for the frame members in order to support the main structure.

One of the key features of the bulb bar is that the strength to weight ratio is about 3 times, because of its unique shape. And because of that, this strength to weight ratio being 3 times, we are able to reduce the weight of the final ship, which then translates that we can take in more ammunition, more personal, and most importantly reduces the weight. So, it's a stealth feature. We can have better speed of the ship on that aspect. We were also given a Defence Technology Absorption Award for our development of this product by Honourable Prime Minister, Shri Narendra Modi. So, I had to a development this product was being imported from.

Adjoining is, again, special steel, ballast bricks, which is used for naval critical platforms. These are used for balancing. The key feature in this particular product is the magnetic permeability of this is near zero, making it very, very difficult to detect on any radar or something. On the extreme right is a product that we've just introduced recently. These are special profiles which are used for the manufacture of the T-90 tanks by one of the ordnance factories. And prior to our development, these were all being imported from Russia. We've successfully been able to indigenize and executing in order for the same.

The other two products that we can see on the screen, the welding wire and the welding electrodes. These are again complex chemistries containing special metals like nickel, titanium, nitrogen, so on so forth. These are used for very high tensile environments used for welding plates which are used for critical platforms, again, of the navy. This also was a product that was being imported from Russia, which we've successfully been able to indigenize and are supplying the same as of now.

On the extreme right is a product called the improved space heating device or, we call as the 'Bukhari'. We've developed this product in joint development with DIPAS, the DRDO lab, which is the Defence Institute of Physiology & Allied Sciences. So, they developed products for high altitude, which is to be used by our army men at minus 20 in Ladakh, Siachen, so on so forth.

We have developed this new product in conjunction with them, where the fuel consumption is almost one-third of the traditional Bukhari they were using. And most importantly, we've been able to ensure through a small solar and electric fan that there is complete combustion and there is no emission of carbon, which we all know is a poisonous gas.

On the new product development, these are all products that I showed earlier. These were all developed and we have orders for the same and we are supplying them to the different customers. And the new business plan as we move forward to, this I've said in my earlier earnings call also we are trying to work on a particular ammunition called the Super Rapid Gun Mount, which is again used for a naval gun. This is work in progress, things are moving, but slightly at a slower pace because still a design stage for us.

The second prospect very, very excited about this is for the manufacture of fire-resistant composite doors and hatches replacing existing steel doors and hatches in all naval ships. We've tied up with the Netherland based company and if we want to start to manufacture the same in collaboration with them as a joint venture, things are moving positively on that front and the main plans of replacing all the hatches due to the corrosion and the heaviness property composite doors are much lighter, again, adding to a feature where you can reduce the weight of the ship.

The thing is, we have an MoU with IIT Bombay, we are developing a product for the army for combat, which is a spherical robot. We've done the prototype and, again, it's to be able to for the field trial to take through. Since we were successful in developing well-consumables for the critical platforms of the navy, we have also been being approached by other wings of the defence forces for developing specialized well-consumables, which currently they are importing.

The next is we've started a new company in Bangalore to work on making specialized converters, which converts radio frequency to optical fibre and optical fibre to radio frequency. In Bangalore, we started work on the same. This is an opening up of our company's diversional fact to get the defence electronics front. And the way that we've got back the order from L&T for about close to Rs.3 crore for the supply of the same. And post this, we see good prospects for us.

Last but not the least, we've tied up with another company. It's a start-up in based out of IIT Madras, which has developed an underwater ROV. So, we've synchronized with them in order to be able to use this product for the naval application as a service job to be able to do the hull thickness measurement, hull thickness and cleaning of the marine growth that happens on ships once they are at sea. This helps in reducing the dry dock time and increases the time that the ship can actually be at sea. So, these are the products that are in-store for us did in the future.

I'll hand it over to Piyush-bhai now to discuss on the financials. Piyush-bhai, over to you.

Piyush Patel:

Yeah. Good morning, ladies and gentlemen. I welcome you all for the earnings update call of the company for H1'FY24. Starting with the revenue, revenue of the company stood at 352.3 million in H1'FY24 as against 195.5 million in H1'FY23. EBITDA of the company increased to 47 million in H1'FY24 as against 32.2 million in H1'FY23, recorded a growth of 45.87%.

Now, profit before tax of the company increased to 34.6 million in H1'FY24 as against 22.8 million in H1'FY23, recorded a growth of 52.21%. Profit after tax surged to 26.3 million in H1'FY24 as against 16.4 million in H1'FY23 a growth of 60.37%. PAT margins have slightly dipped by 92 basis point to 7.46% as against 8.39% percent in H1'FY23.

Thank you. Over to you, Ankur-bhai.

Ankur Shah: Yes. So, we've covered in brief about the company, and so on so forth. And I do want to take too much time. I want to spend more time in a session. So, Vinay over to you, if you have had any questions already, you can let us know.

Question-and-Answer Session

Vinay Pandit: Thanks, Ankur. You can end the presentation. Anybody who wishes to ask a question may use the option of raise hand. In case the option is not available, you can put the question on chat or you can message us on chat, and we'll call you for the question. Until the question queue assembles, Ankur, one question which a lot of people – okay, we have the first question from Pranay Gandhi. Pranay, you can unmute and ask your question.

Pranay Gandhi: Thanks so much. Good afternoon, Piyush and Ankur. This is the first time, I'm covering your company, so I might have very basic questions, but it is just to understand the company better. Apart from the steel products basically for the ship and the tank, you had listed down few products, including fire resistant door and hatches, ammunition, and radio frequency to optical fibre for which you had mentioned, you have already received a contract worth Rs.3 crore. Could you just briefly, probably help me with the addressable market size or the revenue potential for all these three products in the coming future?

Ankur Shah: Yes. So, it'd be difficult for me to give you product wise how it works. The reason why we look at, I'll start with the first product, which is the composite door and hatches. We understand that most of the European navies have now moved from steel doors and hatches to composite simply, because of the advantages that fire resistant composite door and hatches can provide them.

And the Indian Navy will also take a leave from that. And we expect that not only for the newer ships, but even for the existing ships that would translate to changing of the steel doors and hatches to composite door and hatches.

Now, the company that we are partnering with Netherlands is one of the world leaders for this particular product. So, we don't have to start from scratch, we just have to start to manufacture and take things forward on that aspect. This is one of the pros that you said.

The second product that you spoke about, the radio frequency part. The addressable market, as of now we've just done a trial system for the L&T. The addressable market is only once we get in further orders as they come in. But we are excited, I don't have a clear sight of the numbers, but the numbers are very, very interesting for us to start, because we invested our time and engineering team behind it to get those products ready.

What was the third product that you spoke about to?

Pranay Gandhi: It was ammunition.

Ankur Shah: Yes, ammunition. Again, the ammunition is currently being manufactured by an ordnance factory in India. However, the navy is not happy with the quality and the timelines that the ordnance factory is giving. So, they are almost importing most of their requirements from European countries. We are trying to fill up this gap, because we've had a successful track record of delivering three products which were imported, which we successfully indigenized, which I've shared.

We've been approached to also work on this product, but this being ammunition it involves, it explosives the other fuses which is heavy electronic part. It is in design stage for us and we are working towards it. Ammunitions take a lot of field trials, there are lots of things coming through it. So, it takes a lot of time, but at least we are excited to work towards it. We've started work on the design front on the same.

Pranay Gandhi: Thank you for that, Ankur. Ankur, just one more question. So, I understand that our flagship product when the company was started was dairy related products. Then, we transitioned into defence sector. So as of FY23, one-fifth of our revenue came from dairy and the rest was from defence and considering the fact that there's so much being invested in terms of defence, all these products coming up. What is the way forward? What kind of revenues are we looking at or probably the ratio or the split between the two sectors?

Ankur Shah: With the tailwinds of the defence sector right now and the focus of the government on Make in India and the Atmanirbhar scheme per se. We see a lot of opportunities for us and, in fact, I listed out in my presentation because I wanted to keep it brief. We are almost doubling our capacity for the existing products that we had and we expect to grow our revenues in the range of close to about 40% to 50% year-on-

year as we move forward. So that's the kind of volumes of the growth that we're looking at.

Just to mention, we are currently sitting in an order book about close to Rs.200 crores that is there. So, we are seeing traction. We are seeing good inquiries coming in, which are getting also converted. And we see a very, very good future for ourselves and especially for the products that we've already delivered. I'm not talking on the newer products, but at least products which have been developed and which have been successful.

Pranay Gandhi: And the order book that you spoke about Rs.200 crores, what is the timeline to fulfil that?

Ankur Shah: It's not a single order. It's breakup orders that are there, and the timeline to do them is anywhere from 12 months to 24 months.

Pranay Gandhi: Okay. And just one more thing in addition to that, I noticed that the EBITDA margins had dropped a bit from 16%-odd to somewhere between 12% and 13%. Any specific reason for that? And I believe defence is usually a high margin segment, because of the criticality of the products. Could you please put some light on that?

Piyush Patel: Yeah, Pranay, I would like to come in over here. It's a good question. And I'm pleased to answer your question. Can you hear me?

Pranay Gandhi: Yes, Piyush, I can.

Piyush Patel: Yeah, yeah. See, if you look at the EBITDA in absolute terms, so it has increased to 45.87% to 47 million from 32 million to 32.2 million. See, our each and every number has shown a growth, revenue increased by 80%, PAT increased by 60%, and we are sitting on the order book position of Rs.200 crores.

In our industry, normally second half, it remains heavier than the first half, and majority of sales happens in the last quarter itself. Now, as a defence company, we are regularly adding new products in our basket, as mentioned by Mr. Ankur, we are adding new products every time and due to the product mix, this happens. If you look at the figure of second half of the FY23 it was 12.76% and our overall EBITDA remains in the range of 13% to 15%. If you look at the previous year figures, it remains in this range.

So, to answer your question, its only due to product mix this has happened, because products are having different margins, so due to this, this has happened.

Pranay Gandhi: Thank you so much, Piyush. So, it would be a reasonable assumption that the EBITDA margin would be in the range of 13% to 15% for the company?

Piyush Patel: You're right.

Pranay Gandhi: Okay. And in regards to the capacity expansion it is being doubled, right? So, when can we expect the number to hit in or are we almost done with it? And what is the amount of capital we are spending on it?

Ankur Shah: So, I'll come in that one, Pranay, that the capacity enhancement is work in progress, right now. But you know these are all the specific equipment tailor this is not off the shelf, so it'll take us about 6 months to 7 months for us to be able to reach that capacity. We are trying to raise funds for us to be able to augment the capacity to the incoming demand and we are talking to a few investors to take it forward.

Pranay Gandhi: And what would be the range of CapEx?

Ankur Shah: We are looking about close to Rs.14 crore to Rs.15 crore is what we are looking at in terms of CapEx enhancement.

Pranay Gandhi: Okay. And, Ankur, since you said that we are looking for almost a 50% growth year-on-year. So, considering that we are doubling the capacity, it would be enough for, let's say, next 1.5 year. So, it would be an ongoing CapEx that we are planning to do, because 50% today would result in almost 60%, 70% next year, considering the compounded growth. So...

Ankur Shah: So, Pranay, you are great at your math. I'm from the engineering side, not a finance guy, but I'll tell you one thing, the capacity that we are building that should serve us for the next 3 years is the thing that we are looking for ourselves, right? So, of course, there might be minor CapEx that will come in. But this will be the major CapEx that we are doing right now, keeping in mind, what we see for us for the next 3 years to come.

Pranay Gandhi: Thank you so much, Ankur. And thank you, Piyush.

Ankur Shah: Yeah, thank you, Pranay.

- Moderator:** Thank you. We'll take the next question from Ajay Surya. Ajay, you can unmute and ask your question.
- Ajay Surya:** Hi. Sir, my question was regarding, we received an order in March 2023 worth Rs.20 crore, which was supposed to be delivered in June. So, I want to know the update on that order, is that delivered?
- Ankur Shah:** Yes, that has been delivered.
- Ajay Surya:** And that product or that they can just guide us which product was that?
- Ankur Shah:** So, I'm sorry, Ajay-ji, due to the classified nature of work, we are not able to say specifically, but it is one of the products that has been showcased. We have certain restrictions; NDA is not to be disclosing what product is going, because the classified nature of work. But to mention that that order has been executed in total.
- Ajay Surya:** But sir, if I look at the overall defence segment revenue, which is around Rs.25 crore, and out of that only like beyond that order only Rs.5 crore has been added to our revenue. So, what sort of revenue should we expect?
- Ankur Shah:** So, interesting question. If you see the date for the order in March, we already had delivered partly in the last year itself, and only the pending supply has come within this year.
- Ajay Surya:** Okay, got it. Sir, my next question was apart from bulb bar, we also have products like ballast brick and weld consumables. So, in this guidance, more on the addressable market size for those products and who are the other players, because in bulb bars, we are competing with Star Wires. And for weld consumables, if you can guide us, who are the other approval vendors and what are the kind of win rates for us?
- Ankur Shah:** We are competing with another DPSU, there are only another one player who is in this supply of weld consumables. So, we are competing with them and the win rate should be about 50% for us for whatever the requirement comes through.
- Ajay Surya:** So, what would be the addressable market for weld consumables?

Ankur Shah: Very difficult to give that number right now, that is there. But with the growing fleet of the Navy and the Navy expansion plans that are there, that is going to serve us some decent volume going forward.

Ajay Surya: Sir, what would be our capacity in these weld consumables, because if I look at the average realization like for bulb bars, we have the realization around Rs.5 lakhs to Rs.6 lakhs per ton. For weld consumables, what would be the average realization and what capacity do we have currently?

Ankur Shah: Right. So, weld consumables, because we are not doing just one product that is there. There are multiple grades and each grade comes at different price depending on what the kind of chemistry is. I can give you a range it starts somewhere in the range about Rs.20 lakhs are going onwards up to Rs.1 crore rupees a ton.

Ajay Surya: Got it. Sir, my next question is more on the financial side, like, if I look at our other expenses that has gone up substantially in this half year, so what kind of like numbers should we foresee in the future?

Ankur Shah: Yeah, Piyush-bhai, you'll have to comment on this one.

Piyush Patel: Yeah. See, Ajay, if you look at our order book position, it's around Rs.200 crores, right? And we are adding new products in our basket. And there are so many products which are in the WIP stage, where we do the – we get the job work from outside. So, there is an increase in labour and job work cost and other consumable costs has increased, due to this number, the number has increased of other expenses.

Ajay Surya: Got it. And so, my last question was like if I look at our current order book announcement, so close to Rs.70 crores is due on supply till May 2024. So, like what are the developments in the company? Are we online to achieve those targets? Or can you just throw some more light on that? That would be helpful.

Ankur Shah: Yeah, so great question. We are on track to be able to execute the orders with the timelines that have been specified. And, hence, when we spoke about the enhancements capacity that we are doing, it's not just going to be one find in the beginning to produce double, we have started work on it already. And we are on track to be able to meet the targets that have been given in the purchase order for the delivery lines.

Ajay Surya: Got it, sir. That's it.

Ankur Shah: Yeah, thank you.

Moderator: Thank you. We'll take the next question from Dipen Vakil. Dipen, you can unmute and ask a question.

Dipen Vakil: Thank you for the opportunity. Sir, thank you for the very detailed presentation also. So, my first question is in the line of your new products. So, what will be the kind of a timeline that you will take to develop these new products and new segments. And once you have developed the product, what will be the timeline to get the required approvals, and before we can start chasing the orders and start coming in our revenue?

Ankur Shah: Great question, Dipen-ji. It varies from product to product. Like, the ammunition product is still going to take some time. It's at least a 2-year process for us to be able to get the approvals, the field trial. So that's some far-fetched away on that front. But the composite door and hatches since we've partnered with an existing product manufacturer, our type testing should have been much faster in that case. But it'll still take at least a good 12 months before we can get that going and start to booking revenue.

For the other products, which are the serviceable product and these are smaller type of products, where the type testing should be done about close to 6 to 8-months' time as we move forward. And for the electronic product, as I told you, we've already bagged an order. So, we are actually executing the order right now.

Dipen Vakil: Thank you for that, sir. And so, all the new products will form part of the existing facility or any new plans for a new facility or anything.

Ankur Shah: No. So, the current plant is capable of looking at, of course, the additional weld consumables that I spoke about, which is going to go for defence and aerospace that, of course, will be done in the same facility. Part of the ammunition could be done in our factory, but we'll have to buy a few equipment for our machinery for that.

But the composite door and hatches, again, we have to set up a complete infrastructure, because that's something completely different than what we are doing right now. So, for some we will need to build infrastructure once the type test and is taken care of. But for the existing products, the same facility, we will do whatever capacity enhancement you will do, we will do within the same premises.

- Dipen Vakil:** Okay. Sir, last question is on the lines of you mentioned that you may be raising capital in the near future. So, what will be your expected mode of capital raise? Will it be debt or whether it will be an equity raise?
- Ankur Shah:** We are exploring all the options for us both debt and equity for us to be able to reach what we are looking at the fund raise. It'll be a mix of both.
- Dipen Vakil:** Okay. Got it, sir. Thank you so much for answering my question and all the best for your new interest.
- Ankur Shah:** Thank you very much.
- Moderator:** Thanks, Dipen. Before we move to the next participant, there's a question in the chat from P.N. Krishnan. Can the management provide insights on the plans of Mazagon Docks, Cochin Shipyard, GRSE, which would help the company to grow its business over the next few years?
- Ankur Shah:** I'm sorry. Sir what?
- Moderator:** Basically, the shipyard companies, Mazagon Docks, Cochin Shipyard, and GRSE, I mean how is the business coming over there eventually which is translating to your business?
- Ankur Shah:** So, every new vessel that is being made, so either of the shipyards be it Mazagon Dock, be it GRSE, Goa Shipyard, Hindustan Shipyard, we get a part of the order is, because one of the first things that is required to start to make the ship is you need the steel plates and the steel bulb bars. So, the moment the shipyards get the order, they place the order on us to a limited tender after the due process. We get our order and that's how supply the entire value chain starts.
- Moderator:** Okay. We'll take the next question from Lakshmi. Lakshmi you can unmute and ask your questions.
- Lakshmi:** Hello, sir. Firstly, congratulations on a very good set of numbers. Am I audible?
- Ankur Shah:** Yes, please.
- Piyush Patel:** Yeah, audible, please.

Lakshmi: Yeah. Sir, my first question is that can you tell us about the whole approval and technological absorption process for the defence sector, like typically how many years did it take you to get approvals for products like bulb bar?

Ankur Shah: Right. Interesting, approval is one part, but before that you have to actually make the product, right, so that's the bigger challenge for to be able to make the product as per the requirement. We started in about 2006-2007 sometime, if I remember correctly, and it took us 4 years to successfully develop the product. We're not even getting on the approval stage, post that the approval starts.

Fortunately for us, the Navy and the DRDO were helping us, because they were very much in need of the product to complete the indigenization loop in total. So that they could become only the 5th country in the world to be able to make up indigenous aircraft using indigenized steel. So, we had a lot of support from them at that point of time. So, it took about 4, 5 years and the approval process is another about 12 to 24 months depending on how fast you've got your things in place, your documentation in place.

Lakshmi: So also, among all your product lines, which one would you say is the key driver for your business?

Ankur Shah: As we speak, it is definitely the bulb bar as we speak, but the other products in terms of weld consumables as we move forward, we see a significant growth in that market also coming through. But as we speak, it is definitely bulb bars.

Lakshmi: Also, sir, given the government's elaborate plan to expand the warship fleet size, could you elaborate on the typical opportunity that you would have for bulb bars in this. Also, what would be the opportunity for ship for bulb bars for each year?

Ankur Shah: Right. So, the way the Navy has planned for – the Government of India has planned for the Navy expansion. We had a Prime Minister was at the Global Maritime, and he spoke about making India the 5th largest shipbuilding country in the world. And if you see the expansion that is happening at all the shipyards, be it the Mazagaon Dock, the GRSE or Cochin Shipyard, they're adding slipways. Slipways, where the ship is actually built.

Keeping in mind that capacity, what the requirement of the bulb bar is going to be, we are doubling our capacity in order to keep up with the incoming demand, because we don't want to land up in a situation where there is a requirement and we are unable to fulfil on time as one of the questions were asked. So, we are trying to ramp up our capacity to be able to cater to the incoming demand that we expect.

Lakshmi: Okay. Sir, one last question. The working capital looks a bit stretched, so how do you plan to fund your growth from the large order book of Rs.190 crores to Rs.200 crores odd, that you have considering the payment would come to the post-execution?

Ankur Shah: Thank you. So, I'll just answer that bit and if I miss out on something, Piyush-bhai can always add on. When we get a contract, let's say, for about Rs.10 crores, it's a supply of 200 tons of bulb bar. It's not that I will get the payment only when I supply the last kg. We do get our part payment as we supply. So, if I supply 10% of the quantity, I will get equivalent payment or through a pro-rata base per se.

As you know, these are very complex products that are there, where the working capital cycle, it takes about 3 to 4 months to manufacture the product, because it involves various stage inspections. It is just not translated from raw material to finished product inspection, but at every stage there is inspection per se. In the last 12 to 13 years, we've been supplying to the different shipyards that are there. We've never had no payment coming in or a single kg rejection coming through.

There are delays in payment that happened, but that happens only the month of March, April. But, otherwise, we've not had any stretched payment delays that are there from the shipyards. One of the prime reasons for that is, we are probably the first vendors for the shipyard. So, when the project is at the start, generally, it's very, very well-funded. And we are not dependent on any other platform to come in, before we need to mount our product. This is going to be the base. So, the work starts at this particular point.

Lakshmi: Thank you, sir. And that was my last question. All the very best for your future.

Ankur Shah: Thank you very much.

Piyush Patel: Thank you. Thanks a lot.

Vinay Pandit: Just if I can ask one question related to what Lakshmi was asking, is there a certain formula that works on the bulb bar versus the deadweight tonnage of the warship or something like that? Would you be open to talking about it or would you not want to talk about it?

Ankur Shah: No, this is something that is there in the public forum, so there's no hiding on that front. It depends like from ship to ship, or vessel to vessel, but it ranges in terms of tonnage to answer it. It ranges in the range of about close to 4% to 6%.

Vinay Pandit: Of the weight of the ship is what is?

Ankur Shah: Of the deadweight of the ship. Yes.

Vinay Pandit: Dead weight of the ship. Right. Okay. We have a question on chat from Mukul Jain. How are your receivable timelines or the credit period? Are they stable and are you receiving it on time or does it fluctuate? And if you could please guide on inventory days as well, how should we investors look at it and our raw materials booked as soon as orders are received?

Ankur Shah: Right. So, I'll answer the first part in terms of payment. There is no abrupt scene payment. We normally get our payments in time from the shipyards per se. However, it is in this March-April time that it is the slightly stretched, generally no payments happened in April, happened in the month of May, because the fund that goes back the centre, so on so forth on that front. That's the first question if I've been able to answer on that.

On the working capital, as I mentioned, the typical time process is about 3 to 4 months, which we are trying to shut down by, trying to shrink by using in more automation, so on so forth. So, we are able to reduce the working capital time when the stock lies at our place. And, with better capacity utilization, we'll be able to do overlap a lot of cycles that are there, which will help us reduce the stress on our working capital.

Vinay Pandit: His third question was, are raw materials booked as soon as orders are received?

Ankur Shah: Yes. So, we have two kinds of contracts that are there. One are short term contracts, which have to be typically supplied in about 6 months to 12 months' time. And then there are long-term contracts which we supplied in about 24-months-odd time. So, for the short-term contract,

the moment we get our order, we immediately book our material with our vendor. These are also specific vendors whom we can buy the material from.

But in the long-term contract, there is a price variation clause built in, which is reviewed quarterly. If there is a variation beyond a certain percent, then that is given, but it also works other way. If there is a reduction, then that also has to be passed on.

Moderator: Right. We'll take our next question from Varun Agarwal. Varun, you can unmute and ask your question.

Varun Agarwal: Thank you for the opportunity. And congratulations, Ankur-ji, and team for the wonderful performance.

Ankur Shah: Thank you, Varun-ji.

Varun Agarwal: The new products which we are introducing, how are the margins when compared to the existing bulb bars, what we manufacture?

Ankur Shah: Honestly, since the new products are under development, except for the defence electronic front, which we have already delivered. We are under development to talk right now about the margin might be a little premature, the ballpark numbers are that we will be in good margin range exceeding what we are doing currently. So, we're trying to pick products in that range where there are margins. So, we have heavier margins.

We are typically trying to look at products, where we can do indigenization for the products that are being currently imported or there's a better technology available internationally. We are trying to bring that over here. So that is our play that we are looking to do.

Varun Agarwal: But we will at least try to get into products which have minimum the same margin range as we are already?

Ankur Shah: Or higher. Yes.

Varun Agarwal: And as we see the bulb bar business also growing, and the new products also we are introducing, so let's say, 3 years down the line. I mean, we can't predict exactly, but how do we estimate how much will be the overall revenue share from bulb bars and the other new products? Do we have any picture in mind?

- Ankur Shah:** We have our estimates on that, because we know what way the order book for the shipyards is going to flow, which kind of gives us a sense on which way our order book will flow per se. I answered that question that we look to grow our revenues in the next 3 years at the rate of about 40% to 50%, which all the products will contribute. In some year you might have a higher on the weld consumables, you might have a higher on the bulb bar going forward. But the growth that I'm talking about is considering our existing products per se.
- Varun Agarwal:** And these new products will be used not just by Navy and by other defence forces also?
- Ankur Shah:** Yes. So, for the new weld consumables that we talk about that has applications with BARC or ISRO, of course, those are all developmental products, so it will move in as it moves forward. But the composite door and hatches and all they are more Navy-related products per se. The SRGM ammunition also is more Navy-related.
- Varun Agarwal:** So, if we are adding a new product which is not related to Navy, so there will be a fresh approval process for that?
- Ankur Shah:** Not really, because we are already giving supplying products to the Army. We are not doing anything with the Air Force as of now, that's something that we are not doing. But with a few organizations of the Homeland Security and the Navy and the Army we have already entered. So, we have our vendor approval and registration for our company done. But for that product will have to happen once the product is developed.
- Varun Agarwal:** Okay. Thank you, Ankur-ji, and all the best for the coming quarters.
- Ankur Shah:** Yes, thank you very much.
- Moderator:** Thank you, Varun-ji. We'll take the next question from Daishik Mehta. Daishik, you can unmute and ask your question.
- Daishik Mehta:** Yeah, good afternoon, sir, and thank you for giving me this opportunity. So, my question is on the two different segments that our company has right there, the dairy segment and the defence segment. And if we see the numbers, the EBITDA margin for the defence segment is slightly greater than 20%. But the same thing for dairy segment is around 7% to 8%. So that kind of puts a pressure on the overall numbers and brings down the margin profile to around 13% to 16%. So are there any plans in future to kind of demerge both the

segments and just keep the defence segment going, because margins are clearly pretty high in that business.

Ankur Shah: Right. So, there's actually great observation and we are aware about this. But currently we're not thinking of any demerger as such. The dairy is being a traditional business, which is, runs on auto mode that is there.

What we are rather doing is we are trying to grow our defence business, which actually is growing, like 4 years back, our defence to dairy contribution used to 40-50 ratio. Now we're at almost 80-20. And probably this year almost it will be rolling 90-10. So that's going to remain in that range per se. So, we're not doing anything new on that front. It's self-sustaining. It's an auto mode, so it's continuing. But we are growing our defence business as to whether demerger bit, albeit, I have not yet thought on those lines. It's a running venture, so we don't want to intervene with that.

Daishik Mehta: Okay. And the numbers that we are discussing, the Rs.200 crore order book that we have and the Rs.15 crore CapEx that we are planning. So, these are the only numbers from defence perspective, right? Or does this include dairy and defence both?

Ankur Shah: It has the defence is like 99% of that. So, one, because as a company, we have to show whatever the order book is there. So, there's about 1.5%, 2% – I think maybe 1.5% for the dairy segment. So, 99% is the defence in the order book that we discussed.

Daishik Mehta: Okay. And if we are saying that going forward, 90% of the numbers would be coming from defence and would that also mean that the margin profile would improve even further, because the contribution from dairy will keep going down.

Ankur Shah: Yes, definitely.

Daishik Mehta: Sure. Is there a ballpark number that we have in our mind to have a stable margin profile?

Ankur Shah: You think all that I can say is better than what we have shown right now, and you've been able to identify the reason for this product mix as Piyush-bhai mentioned. So, if you stick to those numbers, there will be growth in that, since once we improve our sales in terms of unit economics kicks in and we have better prospect for margins and EBITDA numbers going up.

- Daishik Mehta:** Okay. That's it from my side. Thank you, sir. Thanks a lot.
- Ankur Shah:** Thank you.
- Moderator:** Yeah. Thank you. We'll take the follow-up questions from Ajay Surya.
- Ajay Surya:** Sir, thank you for the follow-up. Sir, I was looking at the trend of warships in India. So currently India has around 470 warships. If you can just correct me on that.
- Ankur Shah:** No, no, no. So, these include even coast guard vessels and so on so forth. So active vessels are close to 120, 130-odd.
- Ajay Surya:** And that number, so currently like bulb bar would be going into the 120, 130 warships that's what you're telling?
- Ankur Shah:** We are supplying material for the new ship building, right, for the newer ships that will be coming.
- Ajay Surya:** Yeah. That's only I was asking me if that 130 is going to get to 200 or 220-kind of numbers. So that would be our addressable market.
- Ankur Shah:** Yes, yes, yes. Plus, what's going to happen is a lot of see when all the ships are not – they're not going to – all of them have a timeline at the same time, right. So, a lot of these ships are need to be decommissioned that is there, because a lot of them have already are close to their decommissioning year that is there. So not only the differential number to reach a 200, but in order to replenish the ones that are going to get decommissioned that also has to be considered.
- Ajay Surya:** Got it. Sir, my other question is on the indigenization level, so far, our products which we deal in. What sort of indigenization has already happened like I was looking at the other construction, so almost 80% of indigenized content?
- Ankur Shah:** Yes.
- Ajay Surya:** I was asking for other products like the ballast brick or Bukhari, or all those kind of products like what is the current indigenization target and at what level currently is India at?

Ankur Shah: The number that you're referring to 80% on the build side, when our ship is made, they divided into three parts, one is the build ship, then is move and then ammunition that comes in. So, build is which is the hull structure, the door and hatches so on so forth, the move is the propulsion system so on so forth, and then the ammunition. So, it's easier to identify on that front. Now, in terms of a Bukhari that is a finished product that is there, right? So, there is no percent, it's 100% indigenize, if I have to answer it, right, that product is done it's 100% indigenize already.

When we say the build is 80% that mean there are still certain components or products that are being imported and that's why we not reach the number of 100%.

Ajay Surya: Got it. Sir, also I was referring to previous announcement by the Indian Army on that Bukhari product like Rs.420 crore worth of order was released in 2021. So, what was our win or how much did we contribute to that?

Ankur Shah: Right. It is the number not released in one day that is there. That's a cumulative one that has come through over the 3-year. We've backed close to about 18% of that order recently that we have got. But also, Rs.64 crore is number that we have backed and they had released about Rs.120 crore. So, we've backed actually 50%, but the total Rs.420 crore is what the plan is to release in the future. If you read that carefully, that's what the differential amount of saving and all that, what is what they're projecting. I know the article that you're talking about.

Ajay Surya: Got it. So, sir, like these products Bukhari would be generally replaced after like 2 years?

Ankur Shah: Yes. So, it is used 18 hours, because you know the temperatures at those altitudes and is about minus 20 – double-digits minus 20, minus 30. So, these are typically used at 18 hours a day. So, the life cycle is typically about 18 to 24 months.

Ajay Surya: Got it. Sir, my last question is on like in the current announcement, we made like acquisition on WaveOptix of 25%. So, what kind of like amount did we pay for that? And like what that company is into? So, can you just guide us more on that?

Ankur Shah: That's the electronic front that I spoke about that we've started a new division on that front that is there. We have formed the company,

right? We've formed the company with the money, that is there. And we will be investing as we move forward.

Ajay Surya: Got it, sir. All the very best for the future and wish you a very happy Diwali.

Ankur Shah: Yes. Thank you very much, Ajay. Wish you a happy Diwali to you. Yes.

Moderator: Thank you. We'll take the next question from Pranay Gandhi. Pranay you can unmute, please.

Pranay Gandhi: Thanks so much. Thank you, Ankur. Ankur, I just had a few follow-up questions. So, I just wanted to know, are we targeting the export market as well or just Indian market for now?

Ankur Shah: Interesting question, again, because these are all products, the existing products that we have are all developed with DRDO consultation, and these are classified. As we speak, we are not allowed to export them.

Pranay Gandhi: Got it. Fair enough. And on the defence products side, I know the bulb bars are a major flagship product and contributes heavily to our revenue. Apart from this, what are the other products probably if you could give us a bifurcation just rough estimates as to how much each product contributes?

Ankur Shah: Yes, I'll give it to Piyush-bhai to answer that one. Piyush-bhai probably coming on that front.

Piyush Patel: Yeah. Mr. Pranay, see, as I told your earlier answer about the EBITDA that product mix it different for the product. We are having 4 or 5 products as of now, which are contributing majorly to our revenue and major part is played by the bulb bars. And after that, second one is the weld consumables, and then comes the ballast bricks and other products.

Pranay Gandhi: And what would be a rough number to that in terms of just a proportion of percentage?

Piyush Patel: See, I would say that it gets changed year-on-year basis or half yearly basis, due to the product mix. As per the order book position, we supply, so this mix change every time.

Pranay Gandhi: Okay. And moving forward, talking about the 40% to 50% CAGR. So, we do assume that it would be coming from bulb bars itself primarily.

Piyush Patel: Yeah, majorly it comes from the bulb bars.

Pranay Gandhi: Okay. And just one more question regarding the job sites that you had mentioned previously. So, we do have captive production and we also have job sites. So, do we have any cost advantage in terms of having our own production in-house or it's similar kind of margins on the job sites? And what is the split between the two? How much do we manufacture in-house versus what we get it from outside?

Ankur Shah: Pranay, I'll just take that one. We wanted to interfere by doing the critical processes. But any product that we manufacture, there are non-critical processes involved and then a critical process involved. Now, during the COVID time, we were trying to develop vendors in and around processes which were non-critical. Like just to give an example, bulb bar needs to be painted and blasted. Now, there is no technology, there is no high-tech involved in that perspective.

So, we developed vendors instead of adding to our capacity and using our land space. We developed our vendor. So, where we get the painting and the blasting done at that point of place. So that is how it works out. So, these are vendors developed for us in order to ensure that within our premises, we are doing the critical applications that are there and the non-critical applications we are able to outsource. So, we are a bit better utilization of our current infrastructure and the resources.

Pranay Gandhi: Fair enough. Ankur, just to add on to that, since you mentioned that the criticality for the bulb bars isn't there. So how do we protect ourselves from our competitors or probably somebody else coming into the picture? Is it just that their first move in advantage that we have had since 2006? Or is it something else as well in terms of permissions or a unique point for our own products?

Ankur Shah: So A) one is the intellectual value that has we acquired with the experience that we have gained. And when the navy was looking to develop, I was not the only sunflower that was there and approached many people with large companies like Steel Authority of India Limited also. But it was not successful and only we were able to do the initial trials and approach many companies and post that also many companies have tried, but they've not been able to do it successfully.

You need to first be able to make the product, then you can get on the approval stage.

Pranay Gandhi: Makes sense. Thank you so much for giving that clarification.

Ankur Shah: Thank you, Pranay.

Piyush Patel: Thank you.

Moderator: I have a few questions in chat. The first one is from Mukul Jain. The order book is one through a tender bidding process or are we getting direct orders?

Ankur Shah: No, the order book is through a tendering process, but it is a limited tender, so but it has to follow the tendering process it is not direct order.

Moderator: And could you please let us know currently how much tenders have you bid for which are pending?

Ankur Shah: Wow, that number is about currently we've bid for about another Rs.40 crore to Rs.45 crore tenders which are in pipeline.

Moderator: Then there's a question from Ishan Rastogi. Can the expectation of incoming demand be derailed by a change in political climate? Is that a risk or is there certainty that this increase in Navy spending will continue regardless of what happens in the elections next year?

Ankur Shah: Again, very interesting question. So, I can speak for what we have right now, right? So, I'm sure no matter which government comes in already the orders that have been placed that cannot be cancelled, right? And with the way India is growing and we are looking to become a good economy, more strong economy, a powerful economy, we need to be increasing our military might, keeping in mind, the growth that our north eastern neighbour is doing and punching very, very hard. To add to Ajay's question, they have about 550 naval vessels and all active. We are about 120, 130. So, you can do the math and these are numbers that are publicly available, but we're not sure how the data from our neighbour comes in.

So, I don't see a change of regime at the centre, bringing in too much change in what India's plan of military expansion is. This is my view, because we've seen it in 2011 and then we had government change in

2014. In fact, with this government, the plants have only accelerated and once things are on accelerated, I don't see things coming back at all, because all the shipyards have done massive expansion, keeping in mind what they have in store for the next 10 to 20 years for them.

Vinay Pandit:

So, it would be fair to assume that you're a quasi-player on a war happening around the world. Since there are no further questions, we'll bring this call to an end. Would you like to give some closing comments, Ankur?

Ankur Shah:

Right. So firstly, thank you all for listening to me patiently. And I hope I've been able to address all the questions that have been asked during the chat platform. And I once again thank all our shareholders, existing shareholders, if some of them are here, for showing continued support and faith in us. One thing that we can assure you as a management, we are working very hard to ensure we are growing in the right way that we are predicting with all integrity and adding to nation building as we move forward, keeping in mind, what the government support system is working for us right now.

And last note, wishing you all a very, very happy Diwali and happy New Year coming forward.

Vinay Pandit:

Thank you, Ankur. And thanks to the management for joining us on the call, and thanks to all the participants for joining us on the call. This was the end of the call. You may all log off. Thank you so much.

Ankur Shah:

Thank you very much, guys. Thank you.

Piyush Patel:

Thank you, all. And happy Diwali to all.