Date: - 16.11.2024

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/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Circular No. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/123 dated July 13, 2023, please find enclosed herewith the transcript of the Earnings Call held on Tuesday, 12th November, 2024 at 2:00 P.M.

Kindly take the same on the record.

Thanking You,

For Krishna Defence and Allied Industries Limited

ANKUR ASHWIN SHAH
Digitally signed by ANKUR ASHWIN SHAH
Date: 2024.11.16 12:15:16 +05'30'

Ankur Ashwin Shah
Managing Director
DIN: 01166537

KRISHNA DEFENCE & ALLIED INDUSTRIES LTD

H1 FY25

POST EARNINGS CONFERENCE CALL

November 12, 2024 2:00 PM IST

Management Team

Mr. Ankur Shah - Managing Director
Mr. Piyush Patel - Chief Financial Officer

Call Coordinator

KAPTIFY

Strategy & Investor Relations Consulting

Presentation

Vinay Pandit: Ladies and gentlemen, I welcome you all to the H1 FY'25 Post Earnings Conference Call of Krishna Defence & Allied Industries Limited. Today, on the call from the management team, 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 risk and uncertainties. Also, a reminder that this call is being recorded. I would now request the management to run us through the investor presentation for the quarter, giving us brief business and performance highlights, followed by the growth plan and vision for the coming years, post which we will open the floor for Q&A. Over to you, sir.

Ankur Shah: Thank you very much, Vinay. Good afternoon to everyone and thank you for removing time and coming for our H1 FY'25 presentation. The structure for this will be that. I'll just run through quickly the presentation with the first five, 10 minutes, and then we'll have our CFO run through the financials. And we'll open the floor as Vinay has mentioned. So, some of you know about the company. But still I'll just run through it real quick. So, of course, we are Krishna Defence & Allied Industries Limited.

Yeah. The company was started with my father, late Mr. Ashwin Shah. He was a double engineer himself. We have operations in Gujarat, in Halol and in Kalol. In Halol, we manufacture the equipment related to the Defence industry. And at Kalol, we manufacture the dairy, which is our traditional business. We have our offices in Mumbai and in Vadodara. And just last year, we've opened our office in -- for our subsidiary company in Bangalore right now, and we are adding on some facility at that point of time.

Glad to share that, this year, the split has been, more towards the Defence as compared to the overalls about 94% contribution come from the Defence sector and about 6% from the dairy for this half year. These are the products that we manufacture. These are bulb bars, the weld consumables, as we can see on screen.

All of them are used for hull construction of naval warships. And I'm glad to share that we've also now got, enlisted for American Bureau of Shipping and DNV. Hence, opening up our application of these products also for coastguard and other vessels, that the shipyards in India are building.

On the left is the Ballast Bricks, HVF. We are very happy to share that we are the only company in the country that's supplying these armoured steel profiles, which are used for manufacture of T90 tanks by Heavy Vehicle Factory, Avadi, near Chennai.

On the right is the Bukhari, for which we have a ToT, which is a product used like a room heater for our army soldiers at high altitude to keep the room warm. These are our defence clientele, the army, the navy, all the top shipyards in the country, DRDO, border security force, and AVNL, which is HVF.

In the Dairy Equipment segment, the manufacturer -- starting with the manufacturer stainless steel milk cans and robotic milk collection units, milk cooling tanks, so on and so forth. Most importantly, the way forward on how we see things for us going forward. Since we successfully did the weld consumables for critical naval platforms and shipbuilding, the ships that is there. We've been also approached by other organizations like ISRO and BARC to develop specific weld consumables, which otherwise were being imported.

So, we worked as an indigenizer and successfully indigenized a lot of the steel components that the shipyards were otherwise importing. For our new subsidiary division that started for WAVEOPTIX, we are working on radio frequency and microwave optical fibre. I'm glad to share that there has been good progress on that front, although the company's started only in October 2023, we've made very, very good progress on that front. And recently, we've signed up, a JV with a Netherland based company for manufacture of composite door and hatches, which is used by the Navy to replace the existing steel door and hatches.

This is slightly more in detail about the optical fibre and the applications, that are working towards the same. At the composite door hatches, we have successfully done the trial at one of the naval ships, and the trial reports are very successful. And we are hopeful that once the trials are successful, we will start getting, orders of the same, initially small orders, but the order volumes will keep increasing as we move forward. This is a typical make in India, under the make in India, we've done this, we've brought in the technology from, Netherlands. They are one of the largest manufacturers in Europe for these kind of products, and we'll be partnering with them and manufacturing these products within India, not only for the Indian market, but also to be able to export to Middle East and Southeast Asia.

As committed, we stand by the growth potential that we see for our company. We see ourselves growing at about close to 40% CAGR for the next three to five years, keeping in mind the product portfolio that we have and the demand that is being generated right now from the naval and the army side per se.

I'll hand it over to Piyush just to run through the financial highlights. Over to you, Piyush.

Piyush Patel: Yeah. Thank you, Mr. Ankur. Good afternoon, ladies and gentlemen. I welcome you on to the earning updates conference call of the company for the H1FY'25. Starting with the financial highlights, total revenue of the company stood at ₹940.4 million in H1 FY'25 as against ₹352.3 million in H1 FY'24, thereby showing a growth of 167%. The company reported EBITDA of ₹141.4 million H1 FY'25 as against ₹47 million in H1 FY'24, a growth of 201%.

EBITDA margins have increased to 15.04% in H1 FY'25 as against 13.34% in H1 FY'24, a rise of 170 basis point. PAT of the company surged by 303% to ₹106 million in H1 FY'25 as against ₹26.3 million in H1 FY'24. PAT margins have increased to 11.27% in H1 FY'25 as against 7.46% in H1 FY'24. Thereby, showing the jump of 381 basis point. *(The growth comparison had incorrect number mentioned, this has been corrected for brevity's sake.)*

Once again, thank you all, and over to you, moderator.

Ankur Shah: I'm glad to share that this particular half year has been the highest ever revenue that we have clocked at about ₹94 crores. Our order book at the beginning of the financial year stood about close to ₹186 crores. We've received orders worth about ₹190 crores in the six-monthly time. And even post successful execution about ₹94 crores, our closing order book as from 30th of September stands at about ₹282 crores, out of which majority of them is towards defence.

So, if we see in terms of percentage to the revenue front, we are about 2.7 times our FY'24, revenue of about ₹106 crores as we can see. These are just additional representations of the same thing as we can see about the revenues number that Piyush has already spoken, the EBITDA numbers and the net profit numbers. All these details have been shared on the NSE presentation, talking in detail about the P&L and the balance sheet. Not taking much time, I will hand it over to the moderator to start taking in questions.

So I think that'll be a better interaction for all of us. Yeah. Vinay, over to you.

Question-and-Answer Session

Vinay Pandit: Yeah. Thanks, Ankur. You can stop the sharing of the presentation. We'll take the first question from Agastya Yadav. Agastya, you can go ahead.

Agastya Dave: Thank you very much for the opportunity. Thank you, Ankur for the presentation and great performance this quarter. I have one question directly related to what you were just sharing. Slide Number 21, on the presentation, it talks about your order inflows and your closing order books, order book size.

So, given the massive amount of orders that you received in the first half, would there be any -- so first of all, are there any bottlenecks now inside the company, which could slow down your execution? I mean, the order book has doubled. Should we expect the turnover to jump much more than what you were initially thinking? Let's say, when we last had a con call, are there any bottlenecks in terms of execution capability on management bandwidth, which may prevent you from actually accelerating your growth further.

Ankur Shah: Right. Interesting questions, Agastya. On what we have done in terms of bottleneck to take care of the orders that we have in hand. Offcourse we have now, as I mentioned, about 2.7 times the order book compared to the FY'24 revenue. It's a very large number to what we have to do. But we were anticipating these kind of orders to come through [Technical Difficulty] [0:10:26] in order to increase our capacity and increase our installed tonnage that is there, with the facility should be up in place by about January this year. And we will be in a good position to successfully execute the orders that we have and in time. So, we have, accounted for the growth potential.

Agastya Dave: Okay.

Ankur Shah: By adding CapEx to our existing infrastructure. Okay.

Agastya Dave: So, the upcoming CapEx then accounts for all of this already?

Ankur Shah: Yes. Yes. Yes.

Agastya Dave: Okay. Okay. So, second question is the new orders, which are coming in, what kind of margins do you anticipate in them? Again, there would be some benefit, because of operating leverage and the new facility also again, operating leverage of the new facility. So, how do you see the margins panning out?

Ankur Shah: Right. So, it is evident from our half yearly performance itself. The moment the tonnages have increased or the revenue has increased, you have seen an uptick in the margins going forward. Now, with more capacity or more throwput, we will also see an upside on that. Very difficult on right now for me to put a number to that, but there will be an upwards swing or towards that also for sure.

Agastya Dave: Is there a ceiling beyond which, it is impractical for us to build expectations that we'll see such kind of margins ? Let's say, can you reach 20%?

Ankur Shah: We aim to get as close to that. We aim to get, as close to that, and there is a possibility for us to get to that level also. Now, we have a good product mix coming up, so which will help us to get to those level. That's the target that we are focusing on.

Agastya Dave: Excellent. One final question, sir you mentioned something about optical systems for defence and aerospace. Sir , I need slightly more detail than what you have provided so far. If you are in a position to share, what exactly are we looking at? Are these more communication related? Like, can they be used in telecom equipments also, or is it purely focused on defence applications? Would you require any certifications? What kind of field testing needs to be done? By when what kind of timelines can we expect by when we will see the first order coming in and then the commercial revenues kicking in. And finally, the margins here also and also the potential of this business. Yeah.

Ankur Shah: So, we have already executed orders about close to ₹3.5 crores to ₹4 crores for the same. This was supplied to L&T Defence, so further supplied to the Indian Army division. The products that we have made are mil grade military grade that is there. In terms of other telecom applications, currently our focus is not on that perspective. We are more focused on the defence side of it, because we see that we have a forte on that side.

These are complex equipments, where the SATCOM and Telecom will not require on those. These are used to convert the radio frequency signal to optical fibre and take the signal back from optical fibre to radio frequency. So, the transmission now cannot be done just for about a limit of about 500 meters for radio frequency. But it can be done 30, 40 kilometres inside the border, keeping a lot of our assets very safe. So that's the end application for it. We've already bagged orders on the same and there are other tender pipelines that we have bid for.

So, we are hopeful. So, the revenue for the same is already in place. So, it's not a trial error. We have demonstrated the product and we're getting orders for that.

Agastya Dave: Perfect. Thank you so much for answering all the questions. All the best. Great performance this quarter. Keep it up. Thank you.

Ankur Shah: Thank you. Thank you.

Agastya Dave: Thank you. Thank you, Vinay. Thank you.

Moderator: Thanks, Agastya. Now, we'll take next question from CA Garvit Agarwal. CA Garvit, you can please go ahead.

CA Garvit Agarwal: Good afternoon. Congrats for a good set of numbers.

Ankur Shah: Thank you.

CA Garvit Agarwal: Again, my first question is on the order book side only. So, what is the execution period for this current order book that we are having? And secondly, like what kind of bid pipeline, do we have right now? And what's the amount of orders, do we expect in second half to come into the company?

Ankur Shah: Right. So, in terms of the order pipeline to be executed that we already had, some of the orders have to be done about 12 months' time, some in 18 months' time. But majority of the orders, will be executed within this time frame, between the 12 months to 18 months' timeframe as we speak. Because some of the orders have come just in the month of about August, September. So, that is how we take at it.

In terms of the order pipeline that we expect for the next six months to come through, we have bidden for several projects, about close to ₹200 crores, ₹300 crores that is there. So, we'll expect orders to come through in that range for us also, going forward. Right now, the focus is on successful execution of the orders that we have in place.

CA Garvit Agarwal: Like, this number you mentioned, 200 to 300. Yeah. Is it the entire bid line or, this kind of order do we expect to come into us?

Ankur Shah: No. This is the bid line. This is the bid line for us.

CA Garvit Agarwal: And what is the success ratio in the recent past or considering the past…

Ankur Shah: About 50% has been our success ratio.

CA Garvit Agarwal: Got it sir.

Ankur Shah: Yeah.

CA Garvit Agarwal: And secondly, like, I was looking at the historical numbers. We as a company are delivering H2 better than H1. Right? So, in this particular year, we have delivered significantly value in H1. So, do you expect, like, H2 is going to be better than this number that we have delivered?

Vinay Pandit: Ankur, that's a forward-looking statement. You can, decline to answer it specifically. Yeah?

Ankur Shah: Yeah. So, we want to try to balance of all of all our quarters because that helps in our financial arrangement. That's what we have been focusing upon. That's what we want to work on.

CA Garvit Agarwal: Got it sir.

Ankur Shah: Yeah.

CA Garvit Agarwal: Coming to our new venture, in the Defence Electronics at Bangalore, like, I want to just ask what kind of products that are currently into R&D, and what is the size of opportunity, we are targeting via those products in next, say, two years to three years? And what are the products like, basically, we are going to launch, say in the near term?

Ankur Shah: So, we've already made a product, which I mentioned, which is the radio frequency optical fibre converters. Now, we have identified one application that we are already doing. Now, we are expanding the application of the product to different end users. So, it's just minor changes in the spec modification in order.

So, to give you an example, right now, we are able to translate up to 6 gigahertz of frequency. We want to uptake to 40 gigahertz. Right? So, those are other applications that will come into place. In terms of order opportunity, even the product that we have currently done, that itself has a very, very large order potential.

What I understand in the next two to three years, we see an order potential about close to about ₹200 odd crores within the same space, in the product that you've developed. If you are able to successfully pull the product in other end use application, the addressable market increases even further.

CA Garvit Agarwal: Got it Sir. I'll join by the queue. Thank you.

Ankur Shah: Thank you.

Moderator: Thanks, Garvit. We'll take next question from Prateek Chaudhary. Prateek, you can go ahead, please.

Prateek Chaudhary: Yeah. So, this ₹200 crore orders, you said this was for WAVEOPTIX. Right? Potential.

Ankur Shah: Yes. Yes. Mr. Garvit asked on Defence Electronics, so I answered on that front.

Prateek Chaudhary: Right. And any other products that we haven't yet disclosed that we are probably working on which could become very big for us?

Ankur Shah: There are a few products that you're working, but it's too nascent to talk on those right now. Because in terms of defence, we've always been innovator. We keep looking at doing different products, because if you work on newer products from now on, the gestation period about two, three years. There are several other products that we are working on right now. But it may be too premature on top and the same right away.

Prateek Chaudhary: Okay. And recently, the government approved the two nuclear submarines to be built. Would our products find application there and what could be like the target size of those orders and how soon could we sort of get that?

Ankur Shah: So, definitely, we will have something to supply in the orders, in the two projects that you're mentioning about. By when it will be done and how much will be done, it is, too again, too premature, because it's still at the PMO level. The file will come. It'll still take some time to do. So, by when, it'll happen. Not very clear idea. But I expect at least about 12 to 18 more months' time. And about what percentage will be our application? Too early to call, because the designs and all are still under consideration right now. But we will have a good role to play. That's what I can say.

Prateek Chaudhary: Okay. But typically, if such a -- because you may have similar numbers for other ships that are built. You know? The value of material that goes in there for your bulb bars and other products. So, roughly, what would be that number in the range for per submarine?

Ankur Shah: So, the calculation for a surface ship as for an underwater Boat are very different. So, very difficult to estimate on those numbers. These design features are not shared openly like the way it is shared with surface ships. Surface ship details are available freely. But when it comes to underwater boats, these things are not available. So, very difficult to put a number to that. But again, like we have supplied for the earlier platforms, we will also have 100% at all to supply to these also.

Prateek Chaudhary: Okay. And last question on composites. Yes. What kind of scale up could we see in FY'26, on the composite side in terms of potential revenues?

Ankur Shah: We have started to build the steel components, which are related for the composites, required in terms of hinges, the locks and the frame, the combing around. So, we started to work on that. And we expect that the facility should be up and running, say, early, by Q1, a 100%. We should be able to manufacture everything within India. And that much time, we did there for the trial errors and the trial orders that will be able to execute and then the field trials for the same. So, the initial FY'26, the numbers may not be very high.

It would be in the range of about ₹10 odd crores times there. But following year, we will see a large number of the application for this, because it'll take time. It's a new product completely introduced first time in the Navy. So, it will go gradually, within all those shifts.

Prateek Chaudhary: Right. And the first half, if we compare first half and second half for FY'24, there are roughly first half contributed 30%, 33%, roughly that number and Second half for almost 67% to 70%. Would this year be some somewhat similar?

Ankur Shah: Again, this is the same question that I answered. We want to try to balance off all the quarters. Because the finances are not happy because we don't want to offshoot just happening in the last quarter that is there. They've been working very hard to ensure that we're balancing all the quarters correctly in terms of supply. That helps our working capital cycle and everything, because everything is skewed in favour of Q4 and Q3, then the fund requirement goes very high. We've been trying to balance. And I would say we've been successful at a great extent to that.

Prateek Chaudhary: So, 60/40 would be a good number to expect this year?

Piyush Patel: You can expect, something closer to that.

Prateek Chaudhary: Okay. Thank you. I'll get back in the queue and all the best.

Piyush Patel: Thank you.

Moderator: Thanks, Prateek. We'll take the next question from mister Khush Nahar. Mr. Khush, you can go ahead, please.

Khush Nahar: Hi. Thank you for the opportunity. So two questions. First, our raw material cost is up this H1 at 57% versus our previous half yearly. And second question is, so what kind of opportunities we see in the commercial shipbuilding? And will the competition be more or less since it is a less rigorous evaluation process compared to defence? So, coming to the first question, any particular reason raw material cost?

Ankur Shah: See, raw material, with our ₹280 crore order book in hand, so all the raw material is also stocked up for the orders in hand. So, to take that as the number literally may not be correct. Right? Because we also have allocated to upcoming orders as WIP, so on and so forth. Hence, the numbers are looking like that. But in terms of per kg cost, you can expect it is the same at what used to be a year back. There's been marginal difference on that front, if that's what your concern is.

Khush Nahar: Yeah. So, on a yearly basis, we can see, the 55% as a raw material cost.

Ankur Shah: Yeah. But that is a percentage of the sales that you're saying.

Khush Nahar: Okay. All right.

Ankur Shah: Of sales, that's why, what I'm trying to come to is that you also have raw material inventory. Right? So that's how the figure is looking higher. So, some stock is in form of sales also or in WIP also.

Khush Nahar: So, for me, what would be a ballpark number for our gross profit margins going ahead?

Ankur Shah: As I mentioned about the EBITDA numbers, that are there with the scale of economics coming in, we will see an uptick on the EBITDA numbers going forward.

Khush Nahar: Okay. And on the second question regarding commercial shipbuilding.

Ankur Shah: Honestly, Mr. Kush, commercial shipbuilding in India is not very big per se, although we are supplying for a couple of vessels that, Cochin Shipyard is doing. But those numbers are not very large. Number of commercial ships being made in India is not very large. We contribute very small percentage of that. Most of the shipbuilders in the country are focusing on defence and homeland security like coastguard vessels, and that's what we are aiming for. So, commercial ships application is there, but volumes are not very high.

Khush Nahar: All right. Thank you.

Piyush Patel: Thank you.

Ankur Shah: Thank you.

Moderator: Thank you, Kush. We'll take a follow-up question from mister Garvit. Mr. Garvit, you can unmute and, go ahead, please.

CA Garvit Agarwal: Thanks for the follow up. So, like you mentioned about the radio frequency product and finding the different applications and kind of opportunity in this particular product only ₹200 Cr to ₹300 Cr. Right? And apart from that having some new products at the nascent stage. So, my question is like apart from having leveraging the domestic tailwinds, how do we see exports as an opportunity here? Do we have any plans in this direction?

Ankur Shah: Currently, we are focusing on the applications and the orders that we have in hand for us. Export is a possibility. But honestly, Mr. Garvit, we are not focusing on that right now. We want to try to cater to the Indian Army's requirement, because we see a huge potential within this, for it right away. And export, there is a possibility to export, but our focus is not on export currently.

CA Garvit Agarwal: And the products that we are bidding for, what kind of competition do we see in the bidding process? Like, how many, company players are bidding along with you in these, projects?

Ankur Shah: There are a couple of companies, MNCs, which have a presence in India. Not named them, but they have they have their representations, and some of them have a small unit over there. So, we are competing with both our American companies that we are competing with.

CA Garvit Agarwal: So, like the number of competitors, is not that much high in the kind of product that we are doing. Right?

Ankur Shah: Yes. Yes. Yes.

CA Garvit Agarwal: Understood. Thank you very much.

Ankur Shah: Thank you.

Piyush Patel: Thank you.

Moderator: Thanks, Garvit. We'll take the next question from Ms. Ayesha. Ayesha, you can go ahead, please.

Ayesha: Good afternoon.

Ankur Shah: Good afternoon.

Ayesha: Firstly, congratulations on such good set of numbers. I wanted to know; your order book has ramped up strongly. However, what we also see is the size of some of your order received are quite sizable. Is this a trend which is expected to continue or improve considering that you're doubling capacity in Halol?

Ankur Shah: Yeah. So, the number of orders and the value of the orders have increased for sure, because of the -- coincidentally, all the larger projects came in. So, hence the volume for one particular order has been clubbed too what I think. As in, the trend will continue, yes and no would be the answer. Indeed, all depends. Per project, we get an order. Right? So currently, what we supplied for was a large ship. So, the large ship will have a larger quantums. So, the volume of one particular order was very high.

Going forward, probably, we'll have smaller ships, but five of those ships. So, we'll have five purchase orders, all five summing to the value that we talk about a larger order per se. So, I don't read too much into it per value, per order that is there. What we look at is, what is the tonnage that we get to supply going forward.

Ayesha: Okay. Thank you. Another thing I wanted to ask is, can you explain a bit about the product-wise opportunity and addressable market share for some of the key products?

Ankur Shah: Yes. Surely. Bulb bars is one of the key products for us that is there. And in terms of you see the Indian Navy's plan, these bulb bars actually used for the hull structure. So, every hull structure will require these special grade bulb bars that we manufacture. And going forward, if you see the Indian Navy is looking to build about close to another 30, 40 vessels in a short span of time.

Now, when they're looking to do that, they will have to come forward, for procurement of bulb bars. So, opportunity for us is definitely going to increase from here on. With our northeastern neighbour playing ball, it's very, very important for us to ramp up our shipbuilding capacity, because we've got a very large coastline. And the Indian Navy is working towards that, which also brings us a lot of opportunity for us to move forward. If you look at, the capacity expansion done at Mazagon Dock at Cochin Shipyard at Garden Reach, they're all doing this to cater to the -- in new requirement that they are likely to, see coming forward.

The moment they are going to ramp up their capacity, they'll have to do equally, which is what we are doing too. So, the business opportunity going forward also looks very, very bright.

Ayesha: Okay. Noted. That answers all my questions.

Piyush Patel: Yeah. Thank you.

Ankur Shah: Thank you.

Moderator: Thanks, Ayesha. We'll take a follow-up question from Mr. Garvit. Please go ahead.

CA Garvit Agarwal: Hi. Just one last question on the CapEx. What is the amount of CapEx that, we are planning to this year or, say next, two years?

Ankur Shah: So, this year, CapEx, is already in place. We have funds for that. But as I mentioned, we've raised preferential round, which will should take care of that. So, most of our investment, the CapEx should be done within this financial year. Some of it might just below that, but there should be add on. But for our existing products, we are not looking to do any major CapEx in the next 24 months starting FY'26. When I say no CapEx, I mean, saying no major CapEx coming through. Whatever will be done, we're done with our resources. We are working on a few new projects that is there. If we see some progress on that, that's the time we may have to do some additional CapEx and we will let others know at that point of time.

CA Garvit Agarwal: Got it. Thank you very much.

Ankur Shah: Thank you.

Moderator: Thanks, Garvit. We'll take the next question from Mr. Ajay Surya. Mr. Ajay, you can please go ahead.

Ajay Surya: Thanks for the opportunity.

Piyush Patel: Thank you.

Ankur Shah: Thank you.

Ajay Surya: Very good execution. Congratulations on such numbers. So, my question is on the WAVEOPTIX side. If you can just clarify the percentage holding by Krishna Defence and then that subsidiary, and that would be helpful. And follow-up on that question, so if you can throw some light on the products, because the products which are referring to, if you can guide us through like what sort of competition are we seeing? Because even in this six month, we have ramped up this venture quite swiftly and it has started to contribute. But if you can throw some light on the competition, like, how is it and how are we dealing with that? That will be helpful.

Ankur Shah: Great. So, thank you for your question. On your first question about the stake that is there, we hold about 25% stake, which will be up to 40% as per the original agreement with them and we are working towards that. That should happen within this next six months' time, starting from October onwards. And on the competition that we are doing, these are very unique and innovative products that we have done, developed in that division, particularly. And as I mentioned, we are competing with two American companies with a supply to the Indian Army for the products that we have done.

So, this is kind of a niche line, requires a lot of technical and experience in the radio frequency line, which our team brings in. And hence we are able to successfully deliver these products as per the mil grade specifications of the army.

Ajay Surya: Yeah.

Ankur Shah: Does that answer your question?

Ajay Surya: Yeah. But I wanted to know, like in sort of bulb bars, because only two players are, like, approved vendors. In this category also, is it something like that, or are it's an open market when we are competing with other players?

Ankur Shah: For the products that we have developed, I thought you were asking about the Defence electronics ones, and hence that I answered.

Ajay Surya: No. No.

Ankur Shah: Okay. Fair enough. So, at the bulb bar front and other products, we have one competitor in each of them. And the tenders that are floated are limited tenders per se, because there's a very critical and classified product. And it's not open ended for anyone to come and do forward. The procedure for getting classified for manufacture and supply for this product is pretty tedious. It's a about a two to three-year process. And many companies have tried it, but none have been successful in the past 12 years, 13 years to successfully do it.

Ajay Surya: No. I meant to say that, because we understand, bulb bars has only two approval vendors. I'm referring it to WAVEOPTIX like the products, which we deal in WAVEOPTIX. Does it have similar approval process for its product like, we get the tenders and there are only limited suppliers of those product. Just wanted to understand the dynamics, like, and the other products like bulb bars and the other products like, is it a limited competition market, or it's a open market with it?

Ankur Shah: No. It is a limited competition market, because you need approvals to be able to bid for these kind of specific requirements, which we've been able to meet. And as I mentioned for WAVEOPTIX, we have two other American companies competing with us when we put in tenders.

Ajay Surya: Okay, that clarifies.

Ankur Shah: Yeah. Thank you very much.

Piyush Patel: Thank you.

Moderator: Thanks, Ajay.

Moderator: Here, we'll invite two participants from the chat. I'll first invite Jatinder Agarwal. Jatin, you can go ahead.

Jatinder Agarwal: Yeah. Perfect. So, I'm new to the business. So, if I'm asking some very basic questions, if you could help me. The first is related to your asset turn in the defence business. Right? So, can you explain what is the asset turn in that business? The fixed asset turn

Ankur Shah: Okay. But it's a number, right? I didn't get what is to be explained in that. Do you want the number, or what is the…

Jatinder Agarwal: Yeah. I want the number, basically. So, what are we currently, what can be the technical limit in terms of fixed asset turns?

Ankur Shah: Okay. Piyush, can you answer the fixed asset turn ratio?

Piyush Patel: Yeah. In terms of turnover, I can say that asset turnover ratio is around five times.

Jatinder Agarwal: Five times.

Piyush Patel: Yeah.

Jatinder Agarwal: And in terms of these products, right, so we do also the castings, or these are, like, billets that come in? How do you it if you could just explain that process?

Ankur Shah: Yeah. So, these are special-grade steels. We procure the raw material from approved Navy approved sources, which in our cases are from ArcelorMittal and Steel Authority. We get the plates, we cut them into billets, we hot roll them to a particular profile, followed by hardening and the tempering process, straightening process, and then the material is supplied to the navy post inspection by the navy to the shipyard.

Jatinder Agarwal: Okay. And when I look at like last two or three years, right, exactly like, it was said earlier. So, we've not seen, actually the fixed assets grow as such on the balance sheet. Right?

Ankur Shah: Right.

Jatinder Agarwal: Fixed assets are like what ₹12 crores, FY'23, and it is about ₹18 crores. And this year, we should do at the current run rate, what about ₹200 odd crores.

Ankur Shah: Okay.

Jatinder Agarwal: Right? So, how does that work if you could explain?

Ankur Shah: So, we've always built our capacity. So, what you read into the previous numbers and was a fixed asset in the revenue, that is not a current figure, because we were always building capacity for the orders to come in. So, we're underutilizing. Now, we are optimum utilization. And now, in fact, we are adding, as I mentioned earlier, to keep up to the upcoming demand. This requires a lot of skill and technical expertise, which we've built over the past 12 years, not 12, but 14 years, we've built that skill and trained people manpower.

So that also is a cost, because this is complex chemistry that we've been able to successfully achieve. So, just to look at it, just on the asset turn ratio may not give a correct view on that. It requires a lot of technical skill and we have boast about 28 young engineers, who work with us from different streams. And myself, I'm an engineer, , a Production Engineer from Bombay University. We harp ourselves on the strengths that we built there. We've successfully indigenized a lot of products that large companies in India were unable to do.

Jatinder Agarwal: Okay. No. I think, you're not getting. So, at the current base, right, your current balance sheet as of September, what type of sales in a year?

Ankur Shah: In the current setup, the installed capacity depending on the different product mix that is there, we should be able to do about a ₹180 crores to ₹200 crores revenue out of it depending on the right product mix that comes through. That's not question that you want to answer.

Jatinder Agarwal: Perfect.

Ankur Shah: But we are looking to double up our capacity so that we are able to get to ₹350 crores, ₹400 crores, for which we already started work.

Jatinder Agarwal: Correct. And by when do you expect this capacity to be online?

Ankur Shah: We expect by Q4 that will be up and running.

Jatinder Agarwal: So whatever -- but again, there is cash and bank balance and there is capital WIP. Right?

Ankur Shah: Yes

Jatinder Agarwal: . So, the capital WIP will get converted to fixed asset, isn't it?

Ankur Shah: But capital WIP is a very small number, know. That number is not towards that. The number is too small. Right? So, capital WIP is on the development front. I'm talking about the CapEx that we're going to do.

Jatinder Agarwal: And that will happen in the next six months?

Ankur Shah: It started see. These are tailor made machine. These are not off the shelf that you go and buy. So, orders have been placed. Some erection is in state, the material is yet to come in. So, in all, up and running, because once post even the successful installation of equipment commissioning and trials have to be done, which is about a couple of month process. Hence, I'm saying by quarter four, we should be up and running.

Jatinder Agarwal: Perfect. Perfect. That is very helpful. Thanks a lot.

Ankur Shah: Thank you. Fantastic. Thank you so much, Agarwal.

Moderator: We'll take one more person from the chat, mister Raja Panda. Raja, you can go ahead.

Raja Panda: Yeah. Congratulations, Mr. Ankur, on a very good set of numbers.

Ankur Shah: Thank you.

Raja Panda: My question is on the weld consumable side. So, I assume that this is the first time we have got an order on weld consumables. Is that correct?

Ankur Shah: Yes and no. But you may go ahead. I'll answer. I'll tell you why yes and no.

Raja Panda: Yeah. So, my curiosity is like, is this internally developed product, or have we got some kind of technology transfer from somebody? Or, like, how we came across this product? What was the requirement from the customer? Or was it our R&D which came up with this? And what are the prospects? Because this is, like you said, it is a consumable. So normally, it is seen that it is required on an ongoing basis. So, what are the prospects of this product, if you could elaborate? Thank you.

Ankur Shah: Yeah. So, interesting question. Because this is not the first order that we've received. We had received a developmental order for this, because these grades were actually imported by the Indian Navy for manufacture of critical platforms.

The success, and it took us about three years to successfully develop and execute after which it went for trials and certification, which again, it's a long process. The material goes different parts of the world for testing, which all came successful. And post the successful result, now we have a supply order of the same. So, the earlier also was an order for the same product, but that was not used on the platform. It is all used for testing whether it qualifies and qualification. And this is all internally developed with DRDO lab called Naval Material Research Lab in Ambernath near Mumbai. It is being developed with that and another being a classified wing of the navy also was involved with development of these products for us.

Raja Panda: Fantastic. So, going forward, can we expect this product line also to be as big as our existing products like bulb bars?

Ankur Shah: Yes. Surely.

Raja Panda: Thank you. That's it.

Moderator: Thanks, Mr. Raja. We'll take a follow-up question for Mr. Khush. Mr. Khush, please go ahead.

Khush Nahar: Yeah. Thank you for the opportunity, again. So just some, clarity on the order. So, I think, our aircraft carrier 3 INS Vishal. So, are we participating in that? Has it already done now?

Ankur Shah: No. That, is not yet started. Work on the same has not yet started. So, it's still at the headquarters. It has to first be translated within the shipyards. Mostly, one of the shipyards will like, we did it last time, will surely do it. But the work on that has not yet started in terms of the material procurement has not even started on that front.

Khush Nahar: So, do we expect that in the next three years?

Ankur Shah: Well, these are -- we expect it to happen in the next financial year. I hope that'll come the next financial year. That's what I'm looking at.

Khush Nahar: Okay. Okay. I saw there will be some articles about, I think, Russia outsourcing to India some ice shipbreakers. So, any clarity on your side? You know, like are we expecting that, or how is it?

Ankur Shah: I'm sorry. I have no idea on that.

Khush Nahar: No. All right. Thank you. Thank you.

Ankur Shah: Yeah.

Moderator: Thanks, Khush. We'll take next question from Mrs. Ishpreet Kaur. Ishpreet, please go ahead.

Ishpreet Kaur: Hi, Ankur. So, just wanted to understand on the composite doors and hatches that you mentioned, the new product that's coming up, this would be largely replacement of plant, or would this be for the new vessels that would be coming?

Ankur Shah: So, the Navy is looking to do it in two phases. Initially, they will do for the newer ships to start in the first phase. Now, when I say first phase, got first, probably, 12 months to 18 months. And, because on retrofit, things get complicated. They want to make sure that they do it in a new brand-new manner to see the success of the product. And if it all works well, then they will also be looking retrofit on the existing ships also.

Ishpreet Kaur: Okay. So, is it possible to get, an idea on the kind of size of opportunity it would be, like, on a per-annum basis or on a two, three-year basis?

Ankur Shah: Per-annum basis is difficult to call because, it all depends on how the Navy projects things, to go forward. Right?

Ishpreet Kaur: Correct.

Ankur Shah: But on three-year to four-year perspective, we're looking about total value addressable market in the range of about close to ₹200 crores to ₹300 crores that is there.

Ishpreet Kaur: Okay. And so, is there like a technology fee or something that we have to get for how to…

Ankur Shah: No. We are forming a new company with the foreign partner holding a 49% stake in that and our company rolled 51% stake. So, they're looking to manufacture India not only for the Indian market, but also for the

Middle East and the Southeast Asian market. This will be the first operation out outside of Europe.

Ishpreet Kaur: Okay. Sure. And the coastguard ships that you mentioned that there is now an approval that you've got for it. So, which are the other companies that are already doing for the coastguard, or is it that, it's an import replacement?

Ankur Shah: It's a completely import replacement.

Ishpreet Kaur: Okay. And again, any market size that you could give us an idea of?

Ankur Shah: Very difficult, per se for me to give you a number on that front. But I can tell you, coastguard is also growing as fast as the navy. Because they have to protect our borders around. And they have a large coastline. So, the projects, what we hear from and all this s are public information that is there, they are moving very, very fast, also to catch up with the naval base, around.

Ishpreet Kaur: Sure. Great. Thank you so much.

Ankur Shah: Yeah. Thank you.

Vinay Pandit: Anybody else, who wants to ask a question, please use the option of raise hand or drop a message on the chat window in case you're unable to raise hand. Ankur, since there are no further questions, would you like to give any closing comments?

Ankur Shah: Yes. So firstly, thank you once again for listening to me patiently. Some of the questions about the product, a lot of you guys know I can see some familiar names that is there. But it's great for the new guys to understand about the product. Any of you want to ask more details can get in touch with, Vinay or myself to understand more in details. And a big, big thank you for all the investors and shareholders to have faith in our company and to have trust in us, because we were a very small company and we've delivered. We've delivered to what we were expecting our internal targets were there.

A lot of times when I spoke about 40% CAGR, people like, are you sure you'll be able to manage that? We are very confident of pulling it through. We've done our highest revenue in this half year. And with the way things are going for us and our order book, we are confident of surpassing this also, as we move forward. And so, thank you all for very much for your support and the faith that you've put into us.

Vinay Pandit: Thank you, Ankur. That's a very good note to end on.

Ankur Shah: Yes.

Vinay Pandit: And thank you all the participants for joining us on this call. Thank you to the management for giving us the valuable time. This brings us to the end of today's conference call. Thank you, everyone.

Piyush Patel: Thank you.