

SEC/SE/051/2023-24  
Date: August 17, 2023

<p>To <b>National Stock Exchange of India Limited</b> Exchange Plaza, Bandra Kurla Complex, Bandra(E), Mumbai - 400051 NSE Symbol - DATAPATTNS</p>	<p>To <b>BSE Limited</b> 25<sup>th</sup> Floor, P.J. Towers, Dalal Street, Mumbai - 400001 Company Code: 543428</p>
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**Sub: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Transcript of Earnings Conference Call**

Dear Sir/Madam,

Further to our earlier letter no. SEC/SE/037/2023-24 dated August 04, 2023 intimating the schedule of earnings conference call on the financial results for the quarter ended June 30, 2023, please find enclosed herewith the transcript of the earnings conference call held on Wednesday, August 09, 2023.

The transcript of the earnings call is also available on website of the Company.

We request you to take the above on record and oblige.

Thanking You.

For **Data Patterns (India) Limited**

Prakash Raja  
Company Secretary and Compliance Officer  
Membership No: A34652

Encl as above



**DATA PATTERNS**

“Data Patterns (India) Limited  
Q1 FY '24 Earnings Conference Call”  
August 09, 2023



**MANAGEMENT:** **MR. S. RANGARAJAN – CHAIRMAN AND MANAGING  
DIRECTOR – DATA PATTERNS (INDIA) LIMITED**  
**MS. REKHA MURTHY RANGARAJAN – WHOLE TIME  
DIRECTOR – DATA PATTERNS (INDIA) LIMITED**  
**MR. V. VENKATA SUBRAMANIAN – CHIEF FINANCIAL  
OFFICER – DATA PATTERNS (INDIA) LIMITED**

**MODERATOR:** **MS. SHRIDA – GO INDIA ADVISORS**

**Moderator:** Ladies and gentlemen, good day and welcome to Data Patterns Q1 FY24 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms Shrida from Go India Advisors. Please go ahead ma'am.

**Shrida:** Thank you Seema. Good afternoon everyone and welcome to Data Patterns India Limited Earnings Call to discuss Q1 FY 2024 results. We have on the call with us Mr. S. Rangarajan, Chairman and Managing Director, Ms. Rekha Murthy Rangarajan, Whole Time Director, Mr. V. Venkata Subramanian, Chief Financial Officer. I must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that company may face. A small request to the participants, please restrict your questions to one or two as we have strictly one hour to complete the call. I will now hand over to Mr. S. Rangarajan. Thank you and over to you, sir.

**S. Rangarajan:** Thank you. Good afternoon, ladies and gentlemen, and thank you for joining us today for the Q1 FY24 results call. I hope you had the chance to go through the earnings presentation, which is available on both the stock exchanges and on our website. Before my CFO Venkat takes us through the financial results, I would like to give you a quick rundown of some of the important updates and key highlights for this quarter. I'm pleased to announce another quarter of profitability, contributing to our company's sustained growth.

Through our QIP, we successfully raised approximately INR500 crores for product development in areas such as radar, electronic warfare, and satellite technologies. This strategic focus on innovation positions has substantial revenue expansion across domestic and international markets in the coming years. Our order book during Q1 FY24 demonstrated remarkable growth of 113% year-on-year, reaching 96.71 crores the order inflow sold to rupees 132 crores representing noteworthy 2.9x year on year increase. In Q1 FY 24, we secured several significant orders, about 357 million for radars and electronic warfare about 362 million from DRDO.

Going to the financial overview, our revenue from operations surged by an impressive 31% year on year. Gross margin remained robust at 62% and EBITDA exhibited a commendable growth of 31% year on year. Defence sector in India continues to be a significant focus for government. The current union budget has allotted INR5.94 lakh crores to bolster the defence sector, signalling a notable 30 percent year-on-year increase. Further, the Ministry of Défense has set an ambitious target of achieving turnover of INR1.75 lakh crores within the aerospace and defence manufacturing sectors by 2025, which includes export targets of around 35,000 crores.

In support of the domestic defence industry, the government is actively fostering an environment of transparency, predictability, and improved ease of doing business through the establishment of a robust ecosystem and support to policy measures. Keeping the sectoral tailwinds in mind, we outlined our strategic priorities over the next two years. Capitalizing on promising opportunities in radar, electronic warfare, and satellite markets. Data expansion into export markets is actively pursuing various prospects in collaboration with domestic competitors, active

participation in contracts for over 20 to 30 billion over the next three, four years, constant efforts aiming at achieving top lines over the 20 to 30 percent, and a sustainable high margin between 35 to 40 percent. At this point, I'll pass the floor to Venkat for his comments.

**Venkata Subramanian:** Thank you, sir. Good afternoon, ladies and gentlemen. We are delighted to report outstanding performance in Q1 FY24. Let me provide an overview of financial results, which are as follows. Q1 24, revenue demonstrated a robust year-on-year surge of 31% and stood at 89.69 crores. Development contracts contributed to 39% of the revenue and production contracts to 54%. Showcasing our diverse revenue streams. Additionally, service contracts accounted for approximately 7% of the Q1 revenue, emphasizing our comprehensive earnings.

We successfully maintained gross margins at a healthy 62% in line with our guidance. The profit before tax stood at 348 million, up by about 80%. Our profit after tax recorded a remarkable 82% increase, reaching to 258.6 million. Our prudent financial management practices have led to a debt-free balance sheet, highlighting our commitment to financial sustainability. We continue to target a working capital cycle of approximately 294 days on TTM basis, ensuring operational efficiency.

As of June 30, 2023, the company holds over 364 million in cash and equivalents, underlining our financial stability and liquidity position. Overall, we delivered a strong performance in Q1 and have set a positive momentum for the year ahead. With this, we will now proceed to the question and answer session. Thank you.

**Moderator:** Thank you very much, sir. Thank you. We take the first question from the line of Umesh Raut from Phillip Capital. Please go ahead, sir.

**Umesh Raut:** Good afternoon, sir. Congratulations for the good set of numbers. My first question pertains to your remark regarding large value tenders with MOD under MEC1, MEC2 categories, which are under process and that you are targeting to kind of explore. So could you please highlight or share some details about those tenders, which are these programs, and how soon we can realize these opportunities?

**Management:** See, MEC1, MEC2, tenders quite a few are in publication. We are addressing a number of them which are relevant to us in our point of business like, radars, communications, some in EW, some in satellites. So we're trying to address those questions that are quite a lot of them. And in all of them, what happens is that once you participate in them, you need to actually build a product, demonstrate the product, go through the evaluation criteria, and then the tender processing starts after that.

So it's a slightly longer duration. So this is why we can't, at this present moment, I can't disclose the number of contracts we're really addressing because there are no value propositions in the contract at the present moment. We have to showcase product, build the product, go through the process.

But these will lead to large businesses if you win such contracts and the product works. The differentiation, what we want to do is, we're trying to largely look at these kind of MEC1, MEC2 programs, where a lot of the development work is done in-house in Data Patterns. If we do that, there is a likelihood that our cost model is lower and maybe our price is more attractive and competitive. So that is what we are aiming.

The second part of what we are doing is, since we have done a lot of work with DRDO and most have been designed as building blocks, you try to reuse the building blocks to address the development requirements. This has two effects. One is the development cost is spread around. We're not really redoing the development so our access to this MEC1, MEC2 a cost model becomes lower.

Point two, the time to develop also is reduced because we're reusing some of the products developed. Point three, the quality also is better because it's been time tested. So this is the kind of approach we're taking with largely Indian or in-house developed products to address these markets. As and when something fructifies to a reasonable level where we can put a number to these contracts, I will be able to disclose them to you.

**Umesh Raut:**

Understood, sir. So my same, I mean question on the same thing is what could be the competition for us in these tenders and basically if I talk about in-house R&D spending that you are planning to do then what it could be? And at the same, are you exploring any foreign tie-up or technology transfers and how these things can kind of form of some of your site going forward?

**Management:**

See, competition essentially is from Indian large companies and some are focused in a smaller presence of startups and largely larger organizations. Most of them have tie-ups with some foreign OEMs, because we need to have products to demonstrate here. Of course, MEC1, MEC2 talks about a lot more value-addition in India but there is some portions can get imported or transfer technology can happen.

So competition is there. It is varied. It's not that all of them compete in all programs or products, but there will be competition. The differentiators, again, as I said, is we try and do more in India to be more competitive. As regards to the second part of your question, do you try to build only yourself and also look at tie-ups of foreigners? Sometimes we would do tie-ups with foreigners because if there are allied or different technologies involved and it doesn't make sense to develop the technology within a short time frame and involves too much development expense, which may not be practical or highly high risk, then we would see that if we can tie-up strategically with some organizations who have the products, so then we could try and do that.

We are thinking on some similar lines in some programs, but in most of the programs we're trying to go alone. So that is where it is. I know it's a very early stage in all MEC1, MEC2 programs. None of them have really been concluded and come into real demonstration stages yet. So I think we need to wait another year or so before we get more data on all this.

**Umesh Raut:**

Understood, sir. My second question is more of on the larger platform or programs like AMCA or IMRH, where currently ADA is doing more of development at a national stage, but they are

kind of now open to have more-and-more participation from the private sector. So are you looking to target some of these large opportunities in say next medium to longer term?

**Management:** Yes, we are already there in LCA, as a Cockpit displays submission systems, and LCA Mark1, our RWR, the Radar Warning Receivers and the flight tracers. So there are some programs we are already participating. Going ahead, on AMCA also we will participate in some of the avionics as part of our existing programs. And similarly, in MCRH, as and when the tenders come out, we will participate in that. We do a lot of avionics. And then the reuse of Cockpit displays across helicopters. So we expect that we should position ourselves properly in those programs.

We're also developing our own, some of the avionics which in India we've been importing till now, we're building our avionics with IP from Data Patterns. We like to position those things also. So there are opportunities out there in large programs, we will probably do that. As and when the opportunity gets clear, the sense that AMCA this thing, strategic partner model and things like that. In case these kind of things were to happen, we would also look at allowing ourselves with platform vendors to see we can get a better value proposition. Yes, we are looking at those opportunities and as and when it becomes real, we will address those opportunities.

**Umesh Raut:** Thank you so much, sir. All the best. I'll join back the queue.

**Management:** Thank you.

**Moderator:** Thank you. We take the next question from the line of Dipen Vakil from InCred Equities. Please go ahead, sir.

**Dipen Vakil:** Congratulations on good set of numbers, sir. Sir, I have my first question is basically on the other trials were happening in. So, any update on that?

**Management:** Just repeat. I am unable to hear you, your voice is breaking.

**Dipen Vakil:** Sir, I mentioned in the last conference call, you mentioned that there will be an update on the seekers from BrahMos in next two to three months. Any update on that?

**Management:** I think the BrahMos seeker is about to get flight tested anytime. We are not very sure exactly in the next few weeks. It is still in that stage. The BrahMos flight testing is over, we will be able to announce this. But it is the program is on, it is current and they are expecting to do a flight test very soon.

**Dipen Vakil:** So do we expect its order in this financial year?

**Management:** I thought the first important thing to answer thing to get this flight tested and see that it is operational properly, meets all the design criteria and the operation criteria. Once that happens, BrahMos has indicated the requirements, but how exactly it is going to come, I am not very sure now. We do not have an inquiry at the present moment. So I can't talk on behalf of BrahMos.

But yes, we are in line to meet the requirement if it were to happen this year. We hope it happens this year. But first the flight test has to happen.

**Dipen Vakil:**

Sure. Sir, and second is on the capex front. So this year, is there any capex that you're planning to do? And what kind of our capacity utilization will be there in our existing facility?

**Management:**

I'll answer the second question first. See, we have manufacturing capacity because on the electronic production, we have a pick and place and an automatic EMS line. We already have this. Now, we also put a second line so that we can, that way double the capacity. So we won't have a capacity issue with respect to production of electronic PCBs and some such products. But what really happens in a business if you like, we are in, in the defense and aerospace, especially since we do a wide variety of electronics, the types are very many and the quantity per type is low and that is true of defense all over the world. So we need a high mix, very complicated high mix, low volume kind of production. But we need to do it in an automated fashion. We have all the infrastructure.

What really happens when a capacity constraint comes, then the different types of products and quantities start coming in. We need to actually test and produce them. The testing evaluation, how can you integrate tests actually takes time. So what we do in a situation like that is, we create a test line as soon as the contract happens as part of the contract itself. We have lines established already for various kinds of products. We need to duplicate the lines to see the production happens, which can be done as part of the product, which is not going to really affect performance or value status.

The second thing we have done is, from the box build, that is the modules build, which is the electronic boards, which boards and systems we build, we now want to graduate to end systems build. For example, large multi-ton radar, equipment mounted on trucks, these kind of things when you do, we didn't have the existing infrastructure could not support such integration activities.

So before we went IPO, we borrowed money and then started building of our own buildings and hangar space, etcetera, and clean room facilities to enhance the kind of production integration infrastructures we needed. That is now in place. We have a very large infrastructure created for integrated system development. So this is the second thing we have done. This has been done more towards addressing future requirements. We have taken money from market. We want to build big products. We need to be able to produce and demonstrate those products. We need to have infrastructure to do that. We have to create that infrastructure also.

So it is a very forward looking infrastructure development which is what we are doing. And that is what is happening now. So we are okay with if we can get the INR1,000 crores order, we can produce INR1,000 crores, it depends on the mix of contracts. That again, we will, depending on the contracts we deliver, we will configure the Capex.

Coming to the first part of the question, I think we have planned to spend another INR20-odd crores for capex this year and we also taken QIP money for some product development and for

that also some capex requirement will be there and that will be spent in line with the development, how the maturity development model happens and what product testing we need to have and what capex is to be required. We will take it to our board meeting, board approval and go through the process.

**Dipen Vakil:** I was asking that which major program that will be participating in this year, any idea like which are upcoming?

**Management:** I'm unable to hear you, your voice is very...

**Dipen Vakil:** Sir, I'll join back in the queue.

**Moderator:** Thank you. We take the next question from the line of Arti Rai from Equentis Wealth Advisory. Please go ahead, ma'am.

**Arti Rai:** Thank you. The first question would be around the margins. I just wanted to understand that while at gross margin level we have sustained a 60% which is in line to the previous quarters and with the EBITDA margin where generally the guidance was up about 40% and was there in the last two quarters. This quarter has come out of term 30% and even in the initial remarks we did mention an outlook of 35% to 40%. So are we looking at slightly bringing it down at 35? I mean, since the sustained margin guidance earlier was 40% and now we are speaking of around 35%?

**Management:** Okay, see ours is not a quarterly driven business and we are three years, four years back is very highly last quarter driven. We have managed in the last two years to address that and make it some more equitable to quarter-to=quarter. But still, the business goes towards last quarter is slightly peaked. So quarter 1 is slightly lower, quarter 2 goes up, quarter 3 goes up further, and quarter 4 at the maximum. This is how it is being, and I expect also to be this year, and that we do something different. So from that perspective, as long as gross volume remains common -- around 60%-65%, your EBITDA margins will be around 36% to 40%, which is what we're guaranteed.

As regards the best order, why is 30% and not 40%? Is there a concern, which you're asking? I don't think there should be a concern because the expenses are averaged, so every quarter is the same. And whereas the turnover proportion to the overheads and expenses is lesser, and becomes more as you go along. Because of that, maybe the percentage ceiling is coming lower, is what you're seeing. But in line with the first quarter estimate, we look at first quarter of previous year, it would be actually on the same EBITDA level percentages.

So it is in line with the percentages, quarter-to-quarter comparison, but you should not compare Q4 EBITDA with the Q1 EBITDA because the revenue is much lower. The same kind of price

**Arti Rai:** Okay, thanks. And my second question would be to understand from an order book perspective, I do see that development orders kind of stand at more than 60% and the rest will be their production. So would it be possible to give some color on how much of it is own product? That's



where you mentioned the margin is also higher and you're moving towards that. So from the order book presently, I mean, how much would it be from the own product vis a vis other way?

**Management:**

This year we should get more contracts from older developed products. See, there is one thing, see, I don't agree with the statement that production orders will have better margins in developer contracts. What really happens in developer contracts is that we spend a lot more development money. The gross margin may be similar. I don't think, gross margin lower in development than in production, unless it's very other specific. So I would not say the same thing is applied across the board.

Across the board, the margins remain the same. What really happens is we spend a lot more man hours and overheads spent during development, which is not there during production. That's what really happens. And the value proposition numbers are, the overall revenue model also is much higher during production than in development.

So that helps in the overall yearly kind of numbers. Why is that? This today, this year, our expectation is we should get more of the so-called production contracts or repeat contracts on products already delivered earlier is what we expect. They are obviously participating in tenders. The outbound tenders is not visible. So what is visible to us, which we take, which what we talked as pipeline, is based on order contract earlier developed and expected production.

**Arti Rai:**

Okay. I mean, just to understand as a percentage, how much of this current order book would be coming from your own product. So while you said it is repeat I mean just to understand because see the idea here is development and production we have given separately but how much as you mentioned because that's where you're saying the margins are higher when you do it yourself on your own product so would be able to possible to give a bifurcation there of the order book, is what I trying to understand?

**Management:**

The margins nothing differ for production and development. Development takes more expense in terms of development cost and the amount of overheads, but not on the gross margin which you are talking about. Again, I am repeating this. Of course, it is also definitely, it is based on the amount of competition, the amount of competitors, etcetera. So that is going to be margin, going to define.

And today what we have, I'm telling you again, this year, most of the content, you get the fully production orders is what we believe. The exact number I'm not able to tell you right now, but as we go along, the expected is going to be most based on what we've done many years back, production orders are going to come.

**Arti Rai:**

Okay. Just a last quick question from the current order book that we have of Model 1,000 Plus, some understanding on how much would be executed this year and possibly what would be next year?

**Management:**

A large portion of the current order book will be executed next year. Maybe about 20%- 25% will be executed this year. The larger portion will be probably executed next year.

- Arti Rai:** Okay. Thank you.
- Management:** We are expecting some more contracts for execution this year.
- Arti Rai:** Okay. Thank you. That's it from my side for now.
- Moderator:** Thank you. We take the next question from the line of Satendru Chakraborty from Chakraborty Family Office. Please go ahead, sir.
- Satendru Chakraborty:** Hello. Good afternoon. Congratulations on a good quarter. My first question is really something happening in your P&L statement. The other income, can you help me understand the year-on-year and the quarter-o- quarter change, just to make some sense on what exactly is happening on that part?
- Management:** The other income essentially is on cash deposits and interest on deposits. I think maybe Venkat you could answer that.
- Management:** Yes, the other income actually this time it is high because of the bank deposits and mutual fund investments that we have made based on our cash flows and the QIP money that we have raised. So that has contributed for the other income. Other income also includes some small foreign exchange gain and things like that, but largely it is the bank interest and earnings out of the mutual funds.
- Satendru Chakraborty:** Okay, so it is fair to say that this is mark to market, that's why this sudden jump, right?
- Management:** Yes, largely kept in the bank deposits. So that's all income earned already. As regards mutual funds, yes, based on mark to market.
- Satendru Chakraborty:** Okay, very helpful. The second question I had was really on the Dornier upgrade program. You have mentioned a lot in the presentation around that, so can you shed some light on where exactly is the government of India on that and what exactly are we doing, which components are we activating to sort of service this project, even when it comes through?
- Management:** We have a couple of projects from DRDO on the Dornier upgrade program, which is under development now. One is to build a radar, the hardware for a Dornier radar for a maritime patrol radar. The second is for the electronic surveillance measures, so EW systems on this. The EW is already based on what's already developed for DRDO and it's a modified product required for Dornier.
- The radar itself is a new development, which has come to us. It's a very high tight timeline of maybe less than 10 months to build a radar. Both we are on the job and we expect to complete the development in time as they are quite by maybe within the time schedule, so it's a joint work with the RDO. They expect to do this.

Once it's completed and delivered and executed, it's expected that a few more aircrafts, maybe 10, 20, 30, depending on the requirement for Coast Guard and Navy, aircraft up-gradation will be given to HAL and once these are qualified they should buy from us. This is the expectation.

- Satendru Chakraborty:** All right. Thank you so much and all the very best.
- Moderator:** Thank you. We take the next question from the line of the Dipen Vakil from InCred Equities. Please go ahead, sir.
- Dipen Vakil:** Hello, sir, I wanted to know the order book of the reporting for FY '24 and mainly it is for the government mainly. I'm sorry to interrupt you sir, we are losing your audio sir.
- Management:** The audio is breaking I'm not able to understand what you're saying, unfortunately.
- Dipen Vakil:** My question is on the execution period of our order book, so mainly how long does it take for our service orders? Like, is it 12 months? And development and production orders?
- Management:** Our existing order book, we will exhaust this order book this year and next year. It will be executed in the next two years. All orders, which we have almost 95% will be executed between these two years. We're also expecting additional contracts for the execution this year and some for next year. That is also in pipeline. But the execution is less than 24 months.
- Dipen Vakil:** Okay, Execution period of 24 months. Okay, got it. And major programs that are there in order flow in FY '24?
- Management:** What is that please?
- Dipen Vakil:** Major programs. So which programs are expected in FY '24?
- Management:** I don't want to get into program level. Earlier we talked about all this. But I am expecting some programs to happen. Some avionics we expect contracts to happen, and some radars. So these are three areas, where we are expecting contracts. Shortly, maybe we'll start getting inquiries, and primarily find it in the next quarter to two quarters, we expect some contracts to happen. And it's on schedule, things are happening, so I think we should get the orders in the next two quarters- three quarters.
- Dipen Vakil:** And are order guidance of INR700 crores still on track, or do we want to change it?
- Management:** Upwards of INR500 crores, we should get. So INR700 crores is what we would like to have. So we'll have to wait and watch the next two quarters what really happens, if there's going to be any change or shift or delays in the order. I don't think, we will lose the order, but there may be delays. We are waiting and watching when it's going to happen. But as of now, we believe it will happen as planned.
- Dipen Vakil:** Okay. Thank you so much, sir. All the best for FY '24.

- Management:** One more thing maybe is also we are also looking at some export contracts this year to Europe and to South Korea. So we've got some orders from Europe already. And we are going to expect more orders from Europe coming in the next month or so, and also from Korea. So some of the orders for this is a full system, product developed in India, probably go to NATO country, and also expecting some contract. I don't want to say the level of value of contracts that we're doing right now. We'll wait for it to happen and then we'll announce it.
- Dipen Vakil:** Thank you, sir.
- Moderator:** Thank you. We take the next question from the line of Mr. Akshay Kothari from Envision Capital. Please go ahead, sir.
- Akshay Kothari:** Thanks for the opportunity. I just wanted to know, since we mentioned that 25% of the total order book execution would only be done in this year. Does it mean that, we would end this year also with a good cash balance or would it be going in our inventory?
- Management:** I do not understand the question. Can you answer?
- Management:** Yes. See, actually our cash balance will be high only, even towards the year end. It will not be going towards inventory build-up. Inventory actually last a few years because of COVID scenario and non-availability of certain components due to COVID. We were actually stocking ahead of the schedule, but by and large it is streamlined now. We are getting the material on time according to our requirements. So we don't expect much of inventory buildup resulting in reduction in expenses.
- Akshay Kothari:** Because in the next year, your growth would be very much higher. So in that case, during the year end time, would there be also, we would be ending with some INR500 crores plus of cash this year itself.
- Management:** We can't officially, we can't predict a value now, but our cash balance will be good enough. It will not be so low. It will definitely be on a larger value proposition only, but at present I cannot answer INR500 crores, INR600 crores kind of a number.
- Akshay Kothari:** Okay, no problem on that front, so which brings me to my next question is, did we do the QIP of a higher amount or did we do the QIP of an ahead of its time, is my question?
- Management:** No, let me explain that. See, we are getting into some major development programs and it is prudent to have, see that the cash is taken and put separately aside to see that, we funding the programs properly. It's not good to take as you want kind of money because we're raising through the public and what we're doing is by the Board is, raise it so that we have the cash in hand and address the markets because you can't keep going to the market again and again.
- So I don't think we have done, either taken higher or lower. People wanted us to take higher amounts. We said, we don't want higher amounts. We have very clearly, we have a clear idea how much we want to spend in the next two years and what programs we are spending it. We

have taken the optimal amount. The cash is useful in the sense that, we know the financial flow here is happening.

We have a clear idea how we want to spend the cash in product development, and we're taking the right amount. I don't think, we've done anything wrong. It's given a lot of confidence to the company and to people inside to say that, we go ahead boldly to build products. It's a very different initiative. Normally people don't do product development in India. They'd rather go abroad and the products available abroad, buy it and take from there, and then do one of that in here, in a partnership with them.

We have gone on a very bold kind of opening, because India is opening out, Indian companies now. And we need to make a difference. We want to be like a foreign OEM in India. Our competition is, we believe, must be foreign, not Indians, because none of them have products here. We want to actually build the products and compete with the foreigners and foreign OEMs in Indian context, where the Indian context is opening up for large markets.

So, we're doing the right thing and we're very convinced that we're doing the right thing and we're going very boldly with a number of programs are going to be developed on this and we hope that, this turns out well because if this does well, then we can scale the company not to 20% to 30% but substantial scaling can happen in the next three years to four years.

This is what we want to do. The market size is large. Addressable market is large and we need to have the addressable market with products. Once we do this, the percentage can be much larger because we're very, very initiated. We have high IP content that's going to be there. And that's where we are really competing and putting a product development effort.

We have more than nearly about 700 engineers working with us. We're not just doing the only, we're taking money. We're also creating infrastructure with that. We're also building people. Because you can't build people overnight in these kind of high technology, high IP areas. This has to be done over a period of time. We have to have enough training programs.

We have re-hauled our HR processes, our people in HR. We've done a lot of things to reorganize our company in line with what the Board has been advising us to do. So it's a very inclusive kind of growth which we're trying to do inside. We're doing the right thing. We're very convinced of what we're doing at the present moment.

**Akshay Kothari:** Okay, sir. That helps. Thanks a lot.

**Moderator:** Thank you. We take the next question from the line of CA Garvit Goyal from Nvest Analytics. Please go ahead, sir.

**Garvit Goyal:** Hello. Good afternoon, sir. So firstly to understand on this skewness in order execution, so Q4 is usually the best for us, which is mainly the most skewed order execution for the contracts, but my question is, why does that happen? Why can't these contracts be executed in first three quarters, so kindly help me to understand that, sir?

**Management:**

See, all the programs, it's not a running manufacturing contract. It's not like a traditional, I produce some shop, or keep producing so many pieces. These contracts are custom built, meaning built to type. Few numbers, goes through a lot of qualification time. And there are two things there. The contract takes, once you get a contract, it takes a year, year and a half, sometimes, sometimes six months to actually execute the contract.

So there is a timeline for execution also is large. Second is there is, third-party inspection for these contracts. This is QA agencies, third-party agencies, they come through qualification process, clear every stage of production and acceptance. So that also takes time. It is sometimes not controllable by us, when they come for inspection.

So there is some timeline gap with that. So in development contracts it takes a lot of time because integration aspects and the user-defined systems comes into picture. So generally, what I'm saying is a number of reasons, why the timeline for execution is large.

Now coming back to the first question, having understood this part, then the second part is, when the customer wants the product to be delivered. This is not in our control to say, when it has to be delivered. So there is a requirement of delivery model, which happens with the customer. They have a yearly delivery they wanted, so some of them get pegged with the delivery states which they want.

And point number four is, government businesses typically gets bunched up towards the year end on budgets, acceptance, etcetera. And also they push for year-end delivery as part of customer pull also happens during that time. And they, in the first six months, nine months, there's not much pull. The push which we do may not be actually, catered to. It goes for the pull rather than a push. We can't push customers to accept. It becomes a bit lackadaisical in the common business.

The combination of these things has traditionally made this this way. They're trying to iron out as much as possible to make it a levelled business. We've achieved actually something very good compared to what we were doing three years, four years down the line. And we're attempting to do more as we go along. But this will be a government business, typically tends to be a waterfall driven business.

**Garvit Goyal:**

Understood, sir, that's it. And so you mentioned out of the existing order book around 20-25% will get executed this year. But at the same time we are saying we will achieve a top line growth of 25% to 30% this year. So how is it likely to happen sir? Like such a low percentage of execution from the existing order book. So how we will achieve that INR650 crores kind of top line this year, sir?

**Management:**

Yes, actually I was just, generally speaking, I'm not going to order level to see. We have a schedule worked out, quarter-to-quarter what you all do, and we're giving a projection to the board, and a budget estimate based on it. So over it, I can give you a proper answer. It may not be good, it may be 40% also. I'm giving a, probably should not give this proper, improper number.

But having said that, I know what my budget for this year is. That is very clear and written in clear on stone, quarter to quarter what we told the board. So from that I'm saying we will do this top-line growth and a bottom-line growth, which is clear in my mind. If you're able to execute a bit more of this year's requirement to do something more this year, then it will go up. We don't expect it to go down from whatever estimates are given you. There's a likelihood of going up but not going down.

**Management:** And we also mentioned that a few more orders are expected for current year execution. That's also there

**Management:** Yes, that's also there.

**Garvit Goyal:** That will also get executed this year only. Some part of it.

**Management:** Yes, we're expecting some contracts to come, which can be executed. We are preparing also for the execution and waiting for the contract to happen.

**Garvit Goyal:** So that means 650, 700 kind of top line is achievable this year, right?

**Management:** No, I'm not. I said 25% to 30% growth will be, no, so suddenly you mentioned. Maybe 50% to 60% growth.

**Garvit Goyal:** No, actually you also mentioned earlier, 30% bottom line growth will be there. So in that...

**Management:** Yes, yes, that is the, and there are two parts. One is top line growth, second is bottom line. See, this year I expect our margin profile to slightly, based on the contracts we're executing this year, our gross margin percentage on the margins are slightly better because a lot of development, a lot of products are coming with some integration.

The margins have gone up, so that is why the kick in bottom line can be slightly better than last year, is what I'm expecting. And as we go along the year, we'll be able to find a few that will go along. So that is what I'm saying. And the second portion is on the top line growth, when we went to the QIP also, we made that, we are looking at a 35% to 40% year-on-year growth, but that is not in a year, means every year I'm not talking, I'm talking of three, four year cycle.

If you look at it, maybe medium term growth, I think our company will do 40% year-on-year, is what I'm expecting to do, at least we have a mission to do this, a mission to do it, and we're looking at some contracts, which will happen, and scale us, and also the product development we're doing will help us scale the revenues multiple times is what we're expecting.

**Management:** But we are currently maintaining our guidance as regards to revenue growth to 25 percentage to 30 percentage. We're on here.

**Garvit Goyal:** And so you mentioned about the participating in large value contracts like Make-I and Make-II. So can you please spend a few minutes on explaining how the business model will differentiate

from the existing one that we are dealing with the DRDO and how it will be like in Make-I and Make-II contracts?

**Management:**

See, we started our lives with DRDO, built products with DRDO and that is giving us a big production that continues to be one of the business arm and markets for us, which we work very close with DRDO, and we do product development in India. But the bigger markets are going to be when MOD buys directly. Some of them goes, because of product development with DRDO, they go on a limited procurement from the HAL and BAL and such public sector. They become our customers, and the production order happens.

But the larger business is when they buy direct. And that they are buying direct from foreign OEMs. Today that is getting ordered with India, the Indian participation in that business. If people again tie up with foreigners, that is going to be a very, very large business. Multiple times the size of business you do with the DRDO. So naturally, when we have a bubble product competency and capability, we need to address the market to build sustainable growth, and also visible growth to be scalable, which is what we are addressing to do.

So the Make-I, Make-II is one such opportunity, but it's not just all Make-I, Make-II. There can be IDDM, Buy IDDM, buy Indian IDDM, that kind of things are there. So there are many categories on which MOD floats tenders. We will be addressing all those tenders. Make-I and Make-II are one of the arms of the tender which will participate.

But all of them we want to participate to look at scaling business, substantively in the next three, four years' time.

**Garvit Goyal:**

And so margin profile is likely to be stable like current. We are not compromising on the margins in this contract, right?

**Management:**

I would normally not compromise margin because we want to be an IP driven organization. And we've retained, refrained from taking contracts which is on very low margins on a production build kind of contract. Repeatedly we've never taken contracts like that because we didn't want to spend our manpower and company focus on low margin production type orders because that will redirect us from our mission of building IP in India and building food systems.

So all these years we have refrained from doing it. I may, so today also we'd like to do this, but there are some contracts which is strategic in nature, where if you do a contract, though the margin because of competition is low, I think we need to take this because this is a foundation of future growth, which will compensate all the pain which we're going through in the initial years.

So from a longer term perspective, we may look at a lower value proposition, low margin contracts as you go along, because that will be necessary to build end systems and complete systems where integration also is necessary. If I don't take the contract, our electronic subsystems, the IP is there, may also not come to us. If we don't take the overall contract, the product integration happens.



So in that situation, we have taken a step back, looked at it and the future of the company and the growth model of the company and there's a good substantive business coming in. We may have to compromise the overall margins and do, we just, it's the right thing to do in our minds so we've done that, we're doing some programs like that.

But largely, yes, we would, especially when electronic systems are concerned where IP is done by us, I think it will be a lower bottom line to one kind of business, which is what we would like to do. And that we are trying to do with more development in India, no value addition in India, rather than buy and integrate. That is our model.

**Moderator:** We take the next question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead, sir.

**Gagan Thareja:** So the first question is around the order pipeline that you indicate. I hope I'm correct if I term it as order pipeline. You indicate INR2,000 crores to INR3,000 crores, over the next three, four years, or four, five years. Is that tender that you'll bid for, or is that the orders that you expect that you can win? I'm a little confused there.

**Management:** See, we are developing a lot of products with DRDO. They can be DW in terms of valent and common systems, ground and airborne. They can be radar warning receivers airborne. There's some com systems we have done for communications. They're also building some radars, part of the radars we're doing with DRDO.

So then we built some avionics for ADA and some LCA and helicopters, etcetera. So all of them, they're going into some production mode. When they go into production mode, the repeat orders, when the production happens, automatically it becomes a single vendor situation. As of now, there is a policy of the government of India, because we are qualified vendors and there is no competition.

We've gone through a competitive profile, with one contract in a competitive mode, and delivered the product which is certified. So when I talk to INR2,000 crores, INR3,000 crores, I'm talking about repeat contracts of those products we already delivered and developed and delivered, which we expect to be honest to happen. The timing varies, but these are the kind of pipeline, that is why I call it a pipeline, rather than a tender oriented business.

**Gagan Thareja:** Okay, but what are the platforms with which these, radar warning receivers or Valent and Comment equipment or software developed defined radios are associated with? Because what happens is if the platform for example you know if something is associated with LCA Mark 2 and tomorrow the Indian Air Force says we want an MRFA of 114 aircraft because the Mark 2 is delayed or whatever, it puts a spanner in the works of that platform and then obviously also some of the prospective pipeline for you either gets delayed or goes away. So it would help if you could, give us some idea of what are the platforms with which these equipment are associated?

**Management:**

Yes, we are very aware of what you're saying and it's factual that we've got control and things may change tomorrow. So when I talk to you, we try to remove such programs from our radar and we remove the numbers from those LCA Mark 2. I don't have a projection. We don't put a projection on Mark 2 because the Mark 2 is announced now but what really goes in, how will the production happen, timelines, we are not really sure and the numbers for what happens, we are not very sure.

So we also remove that from our projection for our board. To very broadly talk about it, there are some upgrade programs happening on fighter aircrafts. We want to position ourselves on the upgrade programs and participate in this. You know, working modern RWR developed with DRDO, a very, very modern internationally you know, comparable product, so we expect something to happen there.

Now we participate like one of the questions asked was Dornier. We participate Dornier upgrade. Some systems are going to go. These are all fairly high-end systems and we expect the next five, six months' time they should go through flight test and qualify. We expect you to qualify the products which you design in a world class.

So, we don't expect there to be a problem. So, this is to get qualified and done. And then, requirement on Dornier is immediate. All of the RFP or something, you know, maybe is talking to and back to back we should get. And the products like Ashwini Radar, we have done the – almost all the electronics, they expect the RFP from Air Force anytime and once that happens we want to participate in this. There is a larger contribution in this and we offer this in the course.

There are other programs like this where they participated earlier and you know they have done this in plane CW, they have delivered the Dharashakti project, it's going to be an SNS program, it's supposed to get announced. We have the Himshakti which has been awarded to BEL, we expect something to happen. And some other which have gone to BEL for Arudhra, we expect something to happen.

So it's a touch of projects like this, which we have some visibility, and the timing is of course, and the value proposition is not very clear. As far as the tender happens and we quote, we'll have a clarity on that. But that's why it's something of INR3,000 crores kind of numbers and what we are trying to do with the QIP money, try to build on those kind of areas, truly world class products, which makes us unique in certain areas and give us quite tested ones there.

We believe that this is very seriously considered by Air Force and Navy and such requirements are there. So, this is for the proponents is what we are looking at. But order pipeline I am talking about is what we have done earlier and nothing to do with new programs like this is all new programs.

**Gagan Thareja:**

Okay, got it. Sir associated to that, I mean, there is definitely more sort of certainty or clarity around introduction of light utility and light combat helicopters because HAL has already built the Tumkur facility and these are very substantial in number, I think 300 to 350 odd helicopters and you already do certain amount of avionics for helicopters. So, is it possible to give us some

idea that whether you are in the frame for doing a certain amount of work here and also elaborate to whatever degree possible on what it could be?

**Management:**

We already there is a cockpit display for LUH. We are considering some portion of the LUH is also being planned for LCH. We are also looking at some options for the LCH, LUH also looking at some displays for us is under discussion. LUH already we are one of the only supplier on the cockpit displays to continue to get contracts. We have lot of order which probably will be executed next quarter. Suppose we execute last quarter, we couldn't do for some reasons, but hopefully the products are ready, we can dispatch it.

So, we have some contracts. We expect that we'll be flying with LUH and LCH as we go along and also the other helicopter platforms. We're also developing an equivalent of a top-level UAV sensor, which is in order for one-off systems to be tested for LUH or ALH. So, that is in the advanced stage of development. We're also looking at whether this can be fitted into all helicopters. So, these are all as an avionics full package with the software domain and everything, competing with the foreigners.

So, that is an advanced stage of design now. So, we should site test in the next few months. So like this we have something going. There are some other programs of DRDO also for UAVs, etcetera where we are getting contracts on communication and we expect some data to happen. These are all definite contracts we expect. Some of them are also there. I didn't clearly identify all the contracts and all programs for you because a bit premature now is what I think. We are trying to address most of those programs where we have competence.

**Gagan Thareja:**

Is it possible to understand, per helicopter, what sort of percentage by value you would be addressing?

**Management:**

I have no clue about the cost of helicopters. I only have an idea of our cost.

**Gagan Thareja:**

About INR150 crores to INR200 crores is what HAL indicates per helicopter for LUH. LCH could be INR200 crores to INR220 crores or something of that sort?

**Management:**

So I think that level of detail we don't want to disclose in an open forum maybe one to one when you come in we should talk to you.

**Gagan Thareja:**

And for missile seekers while you are doing something for BrahMos, two parts to it. One, what could be the associated value and two, are you also doing seekers for other missile programs. There are a host of other missile programs in the works MPATGM and very short range air defence systems and so on and so forth and is there something in the works on that side as well for you?

**Management:**

This is all originated by the designer of the missile, the seeker becomes a part. So, as long as they include us as part of the missile, then yes we are there. So, it is a decision which DRDO has to take. All along the seekers have been, they have tied up seekers with foreigners and they have

a bit different kind of a manufacturing arrangement for barrel and PDL they're doing it. The seekers are not being designed in house in India.

The more and more seekers are designed in house people like us will immediately pitch in because we have a competency model to build the seekers along with DRDO to build world class seekers for them. Today, it's BrahMos and once it is successful, I think we can make many variants of the same thing for very, very many seekers. Ours is RF seekers, microwave seekers, this is what we do.

There are some seekers are IR and electro-optics, visible in IR at the present moment is not there. We may go into this at a later date. But yes, there is a possibility, but I cannot give you a like we said I cannot give you a value content proposition at the present moment. Competencies exist. We need to look at opportunities coming in and whether alignments can happen.

**Gagan Thareja:**

Lastly, sir, on working capital, you indicated last year that this year we should see some improvement. I believe at the end of the first quarter, we remain by and large the same levels as we closed last year. What would cause working capital to change and by how much do you expect to reduce it?

**Management:**

We would expect that this year it will come down a bit. Give it a couple of years' time. The change is happening within the organization and also the customer base and the kind of orders and markets we are doing. So, we are seized of this issue and we are addressing it. I think you will see changes as we go along. But we have the cycles will come down and we are also understanding how the connection cycle happens and also looking at how to mitigate some of the integration processes which customer wants and because of which it takes time to make payment.

We are trying to address all of them to bring this into some acceptable numbers. defence because of government and it is only part of the system we deliver. There is some confusion on that. We are trying address this. As I said we will bring it down in the next year or so. You would see that it's coming.

**Gagan Thareja:**

Thank you, sir. I will get back in the queue. Thank you.

**Moderator:**

Thank you sir. Ladies and gentlemen, due to time constraints, we will take the last two questions for the day. The next question is from the line of Abhishek Agarwal from Naredi Investments. Please go ahead.

**Abhishek Agarwal:**

Good afternoon sir and congrats on good number. My first question the number of employees has been increased in Q1 compared to Q4 last quarter. Even after that, employee cost has decreased in Q1 compared to Q4 last quarter so what is the reason behind it? And second part of this question, how much salary will be high in FY'24 and when?

And last question, for next future of growth if you need any extra funding, go for reasonable debt as interest cost you may charge from profit and loss account, whereas raising of equity is always costlier than debt?

**Management:** I didn't hear the last question. Can you repeat the last question please.

**Abhishek Agarwal:** Yes, okay. For next future of growth, if you need any extra funds, go for reasonable debt as interest cost you may charge from profit and loss account, whereas the raise of equity is always more costly than debt.

**Management:** Okay, I'll answer first, the last question first. We are not really looking at any extra funds for the next one years or two years. We're looking at an order book, how we want to do. Some of the orders come with advance from customers, so only bank guarantees we are able to address from internal accruals, we should be able to address those requirements and look at, we have some money with bank account, bank for open cash credit, but it is not utilized.

So I don't think we've been looking at some very large banking funds or outside funds to propel our growth in the next two years, as we see. The company generates cash, so we should be in a cash positive. We're not really looking at extra funds. Either large bank funds or go to public and take shares. So I don't think we are looking at it at the present moment at all.

The second, first part of the question is on number of employees and salary increase. See, we are looking at scaling the business substantively in the next three years to five years. And this is a very IP driven business. And you can't go out and recruit people, when you want and have the people in the tool address the market. We need to production, we need training, we need development. So this is an ongoing thing and we are looking at a future.

This company is actually looking at long term business. They're not really looking at this year's business and building competencies. We are looking at product development, which takes many years of maturity model and development and testing. And we have a number of products we have in mind. We want to do this, which India's importing. So towards that, our people, number of employees, etcetera, will continue to grow. We are now about nearly 1,300 people or more and we will continue to take people as we go along.

We do two things. One, because the growth requires this kind of people. Second, also, we are a high technology company. We also lose people, attrition happens because this is a high technology area that people, we become a training ground for other larger foreign OEMs. So we also have to understand that and build, so that we suddenly don't have deficiencies of people on our order execution.

We put too much effort, so that should not be a problem. So we have a clear idea of HR, process of recruitment and training, so that's one thing, which we're going to be doing today. As far as salary is concerned, I will ask Venkat to answer this question.

- Venkata Subramanian:** Salary actually what is debited in the profit and loss account is after capitalizing INR1.28 crores towards the product development expenditure. We have already started, product development initiative what we have taken the money for out of the QIP. So we have capitalized some portion of the salary of respective resources working on those projects, which are being developed. So net of that only you are seeing, that is the reason, you are seeing a lesser number as compared to Q4 of last year. And salary increase, we do it in line with the industry practices and the trend.
- Moderator:** Mr. Abhijit, does that answer your question?
- Abhijit Mitra:** Yes. How much salary will be hiked in percentage term?
- Management:** How much percentage? See, there are two things in this. One is the number of people go up and then the percentage increase happens. So, this is based on our projection about overall, our employee cost within the budget, goes up by 25% or something.
- Management:** Overall, employee cost is expected to go up by about 20% compared to last year. That's what the budget.
- Moderator:** Thank you. Ladies and gentlemen, we take the last question for the day from the line of Sarjeet Yadav from Mount Intra Finance Private Limited. Please go ahead, sir.
- Sarjeet Yadav:** Yes. Hello, sir. Good afternoon. I had a question regarding the DRDO projects. You have already spoken about them a lot. So, about one part of your revenue is coming from the development orders. Do we take it that, they are going to be single vendor situations or they are going to be competition when the product is finally developed?
- Management:** What is that? I didn't understand the second sentence. Is it single vendor situation? What is that?
- Sarjeet Yadav:** So, what I meant is that, when the product is fully developed, tried and tested, so that subcomponent is going to be procured only from you or it's like a game can go on in a competitive mode?
- Management:** No, what has been qualified by us as a single vendor post first order, the acceptance practices, they place the order only on the company, who has developed it earlier. So that is the practices, we are developing. Because it has a lot of certification and development which we do on a production mode. So that is an established process as of now.
- Sarjeet Yadav:** Okay. Secondly, can you give us a split between the exports and the domestic market segment and defence and non-defence segment split?
- Management:** We are largely in defence, so there is a little bit of space we do, but the percentage is single digit less than 10%. So our focus is on defence and this year like I said, we are also getting some export orders, but the export contracts will get executed next year, not this year. Some export will do this year, maybe about \$2 million to \$2.5 million, it may exceed \$3 million so.

So the rest of the contracts we're getting, we should export it next year, because it will take about a year for us to actually build the product and test drive. But as a percentage, if you look at it, it is on a scale, about 10% to 12% can probably be the export with respect to domestic will be larger. We can actually go along, increase it as we go along. We have ideas of what we want to do. But the present status is around this percentage.

**Sarjeet Yadav:** Okay, thank you, sir. That's all from my side. All the best.

**Management:** Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

**Management:** Thank you everyone for your interest in participating in this revenue call, the quarter one call. I would just like to close saying that, we are very serious about building products in India and scaling the company. Towards that, we have taken QIP money. We want to build IP, build products, compete with the OEMs and try to build a capability and a scalable business model in India.

The opportunities are large. It's how we develop products and how government and users react to these kind of products of ours, that will really determine the fate of where we want to go. We are at the present moment quite bullish and we are very focused inward looking organization, trying to build competency in the business.

Thank you all for supporting us, and any questions you have on top of this, you can always approach us through Go India, write to them, so we can also answer your questions. On site visit, one-on-one interactions, please talk to Go India. We'd be very happy to address all the questions that you might have. Thank you very much for taking this call. Thank you.

**Management:** Thank you very much.

**Moderator:** Thank you. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.