"Data Patterns India Limited Q4 FY2023 Earnings Conference Call"

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ANALYST: **MS. SAMADRITA SAHA – GO INDIA ADVISORS**

MANAGEMENT: **MR. S RANGARAJAN – CHAIRMAN & 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: Ladies and gentlemen, good day and welcome to Data Patterns (India) Limited Q4 FY2023 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Samadrita from Go India Advisors. Thank you and over to you Mam!

Samadrita: Thank you Aman. Good morning everyone and welcome to Data Patterns (India) Limited earnings call to discuss Q4 and FY2023 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 Mr. S Rangarajan is taking the call from abroad and given his other business commitments, we have to restrict this call to strictly an hour. I will now handover to Mr. S Rangarajan. Thank you and over to you Sir!

S Rangarajan: Good morning ladies and gentlemen. Thank you for joining us today for the FY2023 results call. I assume you had the chance to review the results presentation which was made available on the exchanges and also on our website. Before Venkat proceeds with the financial results, I would like to provide a brief overview of some strategic updates with key highlights for this year. It gives me great pleasure to share that the company has exceeded initially 25-30% early growth guidance achieving a 46% growth for the year. PAT for the year had a growth of 32% year on year. As explained in the press release, my focus in the last few years has been to smoothen the revenue profile over the quarters rather than rely on the big fourth quarter. Q4 as a percentage of annual revenue has come down from 70% in FY2021 to 41% in FY2023. Predicting what are the revenues and gross margins are becoming very challenging due to customer inspection timelines and product mix issues. I would like you all to assess the progress of the company on an annual basis. Gross margin of Data Patterns own products will continue to be robust in the region of 65%. These overall gross margins maybe lower than integrating products for items but this will drive more growth in revenue. Continued volatility in top line and the growth due to these factors right metric to evaluate the company's PAT growth. I am confident that we will continue to grow PAT at 30% for the next several years. As you know we are in an investment phase and we continue to invest in people, technology, and infrastructure. I do not want to calibrate these investments based on quarterly results. Hold me accountable on annual basis on the key metrics. Having said that to give you some visibility on FY2024, we expect

EBITDA margin to be around 40%. FY2023 has been a momentous year for the company on the order booking front with order inflows for the year crossing 900 Crores mark up more than 3X from the last year. As of March 31, 2023 the order book stood at 924 Crores up almost 2X as compared to last year. With the inclusion of orders finalized in April and May so far our current order book is in excess of 1000 Crores. In FY2023 we secured several significant contract including radar orders valued at 449 Crores from DRDO, Bharat Electronics and Department of Space encompassing both development and production. Electronic warfare development order worth 53 Crores from DRDO, production orders for BrahMos for Rs.40 Crores. I anticipate a significant order booking in FY2024 and most of that will be from Data Patterns own products with single entry tenders. CFO will give you some color on working capital movements, particularly after the March closing. Even based on our reported March 31st financials, the cash conversion cycle, net of advances has improved during FY2023 to 275 days from 286 days at the end of FY2022. The whole management team is very focused on the key metric and committed to continuously improving it. Needless to say the robust ROC, and ROE metrics will be our focus in FY2023 excluding impact of QIP funds received in March, the companies ROC has remained strong. We expect our sustainable return metrics to be above 20% as we complete the product development investments. As you know we've raised equity through QIP, we will take advantage with significant opportunities presented to us and we are thankful that the investors have entrusted us with 500 Crores. The management team is fully focused on building the next generation products that will help scale the company in a big way. Proceeds for this new investment will be utilized for development of new products in the areas of radars, electronic warfare, communications and satellite. Initially these products will be introduced in domestic market and will subsequently be expanded in export market. We anticipate these products to be the significant growth driver in the company over the next three to five years. I will be sharing more details on the progress over time. I will pass the floor to Venkat for his comments.

Venkata Subramanian: Thank you Sir. Good morning ladies and gentlemen. We are delighted to report an outstanding performance in FY2023. Let me provide an overview of FY2023 financial results. FY2023 revenue witnessed a year on year increase of 46%, development contracts accounted for 41% of Q4 FY2023 revenue compared to 37% in Q4 of FY2022. Production contracts made up approximately 57% and service contracts approximately 2% of Q4 FY2023 revenue. Gross margins for FY2023 were at 62%. PAT for the year increased by 32% to reach 124 Crores driven by a strong growth and revenue. The commissioning of our new infrastructure took place in Q4 FY2023. We have invested around 45 Crores in this new facility. Despite an increase in debtor days, the overall working capital cycle has remained stable due to substantial advance received from the ongoing projects. Even on receivable front April collections have significantly improved, improved the cycle which tends to be higher at the year end. Around 25% of year end receivables have already been collected. Receivable days stand at 241 after accounting for funds collected in April and May. Notably a large portion of the receivable as at March end more than 100 Crores is attributable to the precision approach radar project of which a significant amount has already been collected in April. As of March 31, 2023 the company holds over 650 Crores in cash and cash equivalent. We aim to maintain a robust balance sheet going forward as well without any net debt and aim to gradually improve our working capital days. Overall FY2023 demonstrated impressive performance achieving record revenue, strong profitability and robust balance sheet. We will now proceed with the question and answer session. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Good morning Sir. Sir I have two questions first one is on the raw material side. Q4 raw material cost to sales has been high so what was exactly the reason and for 2024 should we look at the nine month as an indicator or Q4.

S Rangarajan: See as we have always been mentioning the raw material cost to sale price varies with project to project and product to product so that is why we have told this year, last year we were on 38% material cost on sales. This will vary from contract to contract however we have given a guidance that typically we do about 65% in gross margin on overall project and these are all based on the products developed by us or Data Patterns product. We have to buy and integrate then obviously the raw material cost becomes as a percentage more than selling price but I think it will give guidance around 65% on an overall year rather than quarter to quarter because what we deliver each quarter varies with the kind of products.

Jehan Bhadha: Right fine Sir. Okay and Sir second question if I look at the presentation, the order book mix has shifted in favor of development contract from last year 25%, this year it is at 64% mix so will that impact the margin going forward.

S Rangarajan: Okay see margins are not really determined by development or production. Margins, it depends on kind of development contracts we get. If it is more on Data Patterns product without integration then the margin remains the same but in case integration happens then the margins comes down so it really do not do anything with development or production. What really happens in development is the overhead in terms of development cost and development expenses over and top of the component cost, the material cost, in production it will be repeat of the earlier delivered developed contracts. Our overhead allocation in terms of product manufacturing will be there and development cost is not there as we tend to write off development cost as part of revenue expenses of that year, so this is typically what happens. Now given more clarity we can see we are engineer driven company. We have more than 500 odd engineers working with us. We tend to build that engineering capabilities to build more products so one way of looking at it is more the development contracts more the future production contract possibility which will scale the business to a healthy mix of development and production which is good. Last year we got a lot of tender contracts on DRDO and development contracts has come but these are all very strategic contracts. We expect that these contracts will scale the business.

Moderator: Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Yes thanks for the opportunity and congratulations on a good top line growth. Sir you have mentioned that you are going to increase the head count of engineers by 100 more so how do we plan to maintain that 40% EBITDA margin range because we missed it this time as well.

S Rangarajan: It will be at multiple projects of the company because the market size is very large so in order to scale the company you must build products because you cannot say I will have a few products. See we are not business model where same product gets procured multiple times. We have many, many program and projects. We need to address the products. India is traditionally used to importing, major parts for our defense. Our idea is to try to build those products which are being imported simply this can be ordered in India and we do that with India technology then EBITDA and gross margins and the bottom lines what we are looking at will get maintained so increase in head count per se and revenue the same then the EBITDA goes down but the revenue also goes up. I do not think we have a problem. Matter of fact it is very important that we increase capability and competence to build more products and sale of revenue and anyway we have given guidance of 40% this year based on contracts and what we expect to deliver this year.

Akshay Kothari: Thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: Just wanted a sense on the competitive landscape so is there any way you can define your market share maybe if not exact numbers. Sir what is your share of business for that particular...

S Rangarajan: I understood Aditya's question. Let me answer if that is the question on competitive landscape and market share. See the size of business is very, very large and the business we are addressing is much, much smaller giving enormous scope of growth. Having said that you can look at competitive landscape and the entire products are actually imported, very few things are being done here. On the product end landscape, the competitive landscape will be foreigners. We are trying to address that market and trying to enhance our products into this but if you look at what we deliver on Indian contract with Indian competition we are very well placed in areas of radar, in the areas of electronic warfare, so these are the areas where the company has the competency so on a technical competency we are far, far higher than us but we cannot talk about market share per se because that varies contract to contract. It varies depending on individual capabilities. A lot of people tie up with foreign companies to make that product available here. We typically tend to develop products here and that is why the EBITDA or the gross margin is higher so the idea is to try to enhance our market by building more products which is what we are trying to do and these products have been developed under development contracts it will repeat business to scale the business. We have also done QIP 500 Crores of money we got in is essentially going to be into product development into various areas where we will try to bring in leadership in this areas which can scale the company multi fold.

Aditya Makharia; Okay got it. Thank you.

Moderator: Thank you. The next question is from the line of Jonas Bhutta from Birla Mutual Fund. Please go ahead.

Jonas Bhutta: Sir just two questions. Firstly can you talk about the two orders that we got from DRDO worth about 130 odd Crores, one the radar the 83 Crores and EW 53 Crores what are the projects and whether we are the lead here or after this level one project this will ultimately go one of the PSU where we will again sub component if you can talk about that first.

S Rangarajan: Your voice was not very clear but I am assuming this is the question. You want us to talk about two orders from DRDO, one on radar and other in EW am I correct. See this is a couple of contracts we received from DRDO this is for requirement for upgradation of radars and electronic warfare system for naval application. We expect to deliver this contract by this year and requirements are more than 20 to 30 aircrafts to be upgraded. If this is successful navy should place an order on HAL for further upgrades so this is an important order for us which will give us revenue capabilities in next two to three years and already we are on the job so we should be able to finish this contract on time and it is equal to any international product in this range.

Jonas Bhutta: Sir sorry I missed on the opening remarks so can you give a guidance on what kind or order inflow you expect for FY2024 because I assume that him Shakti order couple of Arudhra sort of flow in so what are the total order that you are expecting for FY2024.

S Rangarajan: I did not mention a particular number expect that we expect sizeable order inflows this year because we do not talk about the specific contract. You are aware about him Shakti and all the orders which we talked last year. Bharat Electronics has revealed the orders back to back, enquiry have to flow in and we should be able to get those contracts which makes the order book is sizeable like last year. This year also we expect that there will be more than 600 to 700 Crores contracts. We are not very sure exactly what time the contracts will come but one difference between last year and this year is we expect a number of Data Patterns product as against integration contracts last year this will also help, mostly Data Patterns products. On top of it we are also participating in tenders and if we are successful hopefully we will have a repeat year like last year on terms of contract but I think if you have to approach this it should be 700 Crores on Data Patterns product.

Jonas Bhutta: Understood and Sir the last question was around net working capital if Venkat can give us the latest numbers on the margin money because I think about Rs.116 Crores or Rs.120 Crores odd was sitting at part of other current assets last year what is the number for the current year as in FY2023 what is number of the margin money and we see that the advances have gone up as we receive orders so what is the rupees Crores value of advances sitting in our balance sheet today?

Venkata Subramanian: See margin money as on date with the banks is around Rs.83 Crores, Rs.80 odd Crores in March. This is actually basically for the bank guarantee limits that we enjoy and a couple of LCs that we had to open and this is expected to come down a bit because some of the margin money kept in March is with 100% cash margins. Some of the guarantees have been taken with 100% cash margins. Those will get accommodated in the enhanced limits that we have already requested and it is in the process. Once that is done then 100% will be removed and only the margin requirement for the bank will be there and as regards to advance, we have more than about Rs.170 Crores of advance sitting in the balance sheet which includes advance received from couple of development contracts in the last year.

Jonas Bhutta: Understood and what is the value of unexecuted order book of these developmental projects that we won last year about Rs.400 odd Crores that we won in the two radar projects so what is the unexecuted part?

Venkata Subramanian: What is that, your voice is breaking.

Jonas Bhutta: What is the unexecuted part of the two developmental projects that we won earlier this year the DRDO radar orders?

Venkata Subramanian: The two DRDO radar orders have not been delivered at all. It is for FY2025 only.

Moderator: Thank you. The next question is from the line of Dipen Vakil from Incred Equities. Please go ahead.

Dipen Vakil: Thank you for the opportunity Sir. I just wanted to understand a little bit more on the order book side so can you help me with the execution schedule as to how we plan to execute on that Rs.1000 Crores orders that we have currently? I think one to one a half year or two years as to how do we factor in?

S Rangarajan: I think about 50% of the orders on hand will get executed this year this FY2023-FY2024. The other 50% will get executed next year barring another Rs.30 Crores to Rs.40 Crores most of it will get executed in FY2025.

Dipen Vakil: Okay that is helpful and like any competitive scenario going ahead as to what major orders can we expect in FY2024 for us to win?

S Rangarajan: We are expecting a sizable order intake in FY2024 due to a number of contracts on the earlier delivered products. Those are all back to back contracts have happened with the public sector BEL and HAL so we back to back expect those contracts to happen probably in the next two to three quarters we expect the contracts to come in and most of them will be executed next year or year after next. A little portion of the contracts we are getting may be executed this year itself, but we do expect a sizeable order intake this year.

Dipen Vakil: Okay and those are my questions. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good morning Sir. My first question is so you had bid for radar for active protection system a few months back so if you can talk about what is the addressable market size of that product and also when the results expected of the tender?

S Rangarajan: I am not getting which is the active protection system you are talking about what we received.

Aman Vij: Radar for active protection system for MDT?

S Rangarajan: For MDT.

Aman Vij: Yes tanks and all those?

S Rangarajan: No we have not got any order for radars for that protection system. We have got an automatic weapon loader. That is the contract we got which will get executed next year. I am not really aware of how contracts will increase the numbers as we go along. We do not have clear idea of development orders where it will go with the production and when it will happen so that is why we do not project all this properly. We project or take projections only of contracts which we are very clear which is going to happen give or take a few months or a year or so but these are in developmental stage. We just reviewed the orders in this last quarter so that is what on radar actually. It is more of electromechanical system.

Aman Vij: Sorry the question was we had bid for that program right the development for radar of active protection systems so is this tender out and we have not won? The tender is not out?

S Rangarajan: We keep quoting many tenders. That is why tender business we do not project at all to market because there is a 0-1 possibility there is a win or a loss so when we talk about the next year projection or order intake I never talk about tenders. Tenders if it happens are plus otherwise we do not need to worry about it. We are more worried about our own products . Tender and all of this is not predictable like radar, we cannot really predict the development timeframe and the repeat requirements these are not predictable that is why those kind of contracts is not very predictable.

Moderator: Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: Thanks for the opportunity Sir and congrats for a very good FY2023 you had getting all the estimates here. A few questions from my side. Now at the start of the call you mentioned your developmental order share evolves higher as far as revenue is concerned? Is it related to what product segment within developmental orders where we have seen a higher material cost for this quarter?

S Rangarajan: We have participated in a couple of contracts from DRDO unlike our product which we normally quote, it is a competitive bids. We call it a competitive bid again this developmental bids government contracts hoping that we will get additional contracts. We will win on the radar and those have a more material cost than the overall selling price. If that is what you are asking. I did not clearly understand your question. If that is the question there are a couple of radar subsystems which we develop so that is one may you are referring to the one major order and last year order book again developmental contracts and we have large developments contracts in Crores from DRDO on competitive bids so these are two areas where we have bid competitively. I hope I answered your question.

Harshit Kapadia: Yes Sir. You had recently launched a check out missile system for BrahMos would you be able to share this is an additional product which you have developed so what will be size in the overall BrahMos missile if you get an order what will be the enhanced value for you if you can share something and is it used for all the three armed forces or is it only for Air Force and Army who will get the orders and Navy is not part of the profile if you share some insight on that?

S Rangarajan: This equipment is used by all services Navy, Army and Air Force. We developed it way back more than a decade back six or seven or eight years, I do not know the exact date we developed and subsequent to that Army, Navy and Air Force have been buying this along with further missiles. If they buy more missiles they also have the four level test systems they also buy that. Back to back we get the contracts so we got some contracts. We are executing this year. This year also some have been executed. We are expecting more contracts for the naval order and you will find this on BrahMos so back to back we should get some contracts this year or probably early next year. These are projects so it varies with the project size whenever it comes so it all adds to Rs.30 Crores, Rs.40 Crores and Rs.50 Crores kind of business once in two years we will get.

Harshit Kapadia: Lastly related to BrahMos you were developing a seeker for the BrahMos missile then I think it was under final testing any update on that, have we received that clearances or they are still in the testing mode that will be helpful?

S Rangarajan: We have done some air trials while the missile trial is supposed to be done probably in another two to three months. Once we finish it we will tell you.

Harshit Kapadia: Fair enough Sir and all the best for the future. Thank you.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investment. Please go ahead.

Vignesh Iyer: Congratulations Sir on a strong performance for FY2023. I just want to understand usually Q4 for us is a very strong quarter in terms of revenue booking and with that comes the operating leverage kicking in for the company and that has been consistent for the last two Q4 as in 2021 and 2022 so I just want to understand on the margin profile side why are we seeing a lower margin compared to earlier Q4 and mainly because of like employee benefits and other expense I just wanted to understand is there any one-off on the expense side for this quarter?

S Rangarajan: The first part let me answer. The second part may be Venkat can answer. Traditionally this company has been in developing mode with DRDO and Department of Space. We develop the product for the year and try to deliver before March because there is also March fund release, etc., in the customer side so almost all the products are developed and we take eight years back or 10 years back on all that we will find very high 80% to 85% will be in the last quarter that is how the revenue was and we have been thinking about how to even out the cash flows if necessary or not take it everything to last quarter and as we went public this is one of the very important things we set ourselves because before going to IPO we started getting visibility year and year and two year visibility and then we wanted to scale the business so one important aspect to even out the cash flows to ensure that the last quarter is not really the major quarter though it will be still higher it should not be so high 70% or 83% so we have successfully brought the quarter-on-quarter and brought the last quarter from 70% to 46-47%. This year also we expect to bring the last quarter turnover to below that so that the cash flow is evened out so this is the right thing to do and we are doing this. It is a very difficult government business. We are trying to see how do we make the quarter's performance better. Next part on the margin profile I did not understand the question Venkat if you understand can you answer this question.

Venkata Subramanian: Actually Q4 we have had one specific because we have announced salary increment for all our employees effective from November 2022 plus towards the year end when we do an actual evaluation for gratuity and leave encashment provision and other things because last year we had a lesser attrition and lesser attrition will lead to higher provisioning for gratuity and other things so these things have contributed some substantial increase in our employee cost quarter-on-quarter basis, this is the main reason for reduction in Q4 margin. Yes of course on the gross margin level also for Q4 since a couple of contracts were the material cost was higher than our normal material cost level the gross margin was less and additionally the employee cost has contributed to the reduction in the EBITDA margin.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Thank you very much to give me opportunity. Sir you mentioned large order value tenders with the Ministry of Defence under first and second category can you tell what is the value of tenders?

S Rangarajan: It is a few hundred Crores to a few thousand Crores and MK-I of course value would be lesser. Initially start with the value of the contracts will be lesser but we feel getting to a large requirement. Once we do a MK-1 or a MK-2 the development contract's size may be Rs.20 Crores to Rs.30 Crores or Rs.100 Crores or Rs.200 Crores but the requirement why this is done as MK-1 and MK-2 because the requirement is very large and it is best that we do it in India so missile contracts this is called MoD missile contracts these are contracts which are like buy more development contracts that is what MK-1 and MK-2 has so entering into these contracts is successful and there is no hold on many large contracts.

Moderator: Thank you. The next question is from Garvit Goyal from Invest Research. Please go ahead.

Garvit Goyal: Good morning Sir. Sir despite showing a tremendous earnings growth our operating cash flow turned negative this time due to rise in trade receivables my question is at one place we have included a slide in our presentation mentioning about well managed working capital then why this thing is not getting reflected in our cash flow and how will we manage our cash flows going forward as the earnings growth without cash flows is a matter of concern for sure?

Venkata Subramanian: Our operating cash flow is negative because substantial increase in the current assets this year at the end of March. At the opening remark I have made a specific mention about reduction in our receivable days post collection happened in April and May. We have got substantial collections of more than 25% as March receivable in April. One contract contributed to more than Rs.100 odd Crores of receivable actually that got delayed and we have got substantial portion of that in April so netting off that if you see the operating cash flow would have been in plus only.

S Rangarajan: Going ahead I think this is an aberration to this year because the amendment for the contract which we wanted has been a lot of time because the company is going from private limited to public limited company and the contract that will get amended. The amendment is taking a lot of time so the execution is happening. The contract amendment could not happen because it has to go to the Defence Ministry and above so that is taking a lot of time and because of which the cash flow collection cycle became bad but that is rectified now and we are going ahead so it is an aberration I do not think that should be considered and going ahead I think our cash flow cycles will be far, far better and as we were saying in the opening remarks also we are aware of this and every effort will be put to see that it is brought down and the number of debtor days is substantially brought down going ahead.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Bandhan MF. Please go ahead.

Harsh Bhatia: Thanks. Good morning. Just one question from my side. Sir we have spoken about Arudhra and Ashwini radar opportunities overall from a two-to-three-year perspective any particular sense on the radars for Uttam radars for MK-1 and MK-2, SU-30 and AMCA like are we looking at that opportunity as a segment because from what we can understand is that you are one of the few players who can manufacture these radars so anything you are looking at from that perspective and what is the competitive landscape for that particular project or segment? Thanks.

S Rangarajan: We are looking at development of MK-1 and MK-2 radar opportunities and EW opportunities. We are very effectively participating on that and also on this radar upgrade we would like to participate so for all of them we need to develop products to address the actual requirements is the reason why we have taken the QIP to see that we address the large opportunities coming to us as a product completely designed by us rather than why essential parts or IP from foreign vendors are integrated in India. We would like to make the IP here that is the reason why we took the money and we are very aware of the opportunity so we are trying to address these opportunities specifically. I cannot give you exact size of business, etc., now because we would not predict the outcome, we can only try and say what is the competitive landscape and how we would be able to address the landscape with Indian products. We are doing that. I think this is the only way to go to scale the company to multifold. Unless you look at more of the opportunities and become needful to international vendor, compete with them and build the products, that is the only way to scale this business, so that is the reason we have taken the money.

Moderator: Thank you. The next question is from the line of Manan Poladia from MKP Securities. Please go ahead.

Manan Poladia: My question was we are seeing the developmental order's order book go up what I want to understand is executing developmental order what we would be the timeframe to execute them and by what time you have the production orders?

S Rangarajan: I cannot talk about timeframe this is too early and this varies. The time for the development contracts will be less than year or can be two to three years this kind of scale depending on the size of contract and complexity with the contracts. The repeat timeframe is not very predictable that is why we do not predict repeat timeframe when it will happen, it just gives you a potential business but that is depending on so many other aspects of that particular contract. So we expect the next few years the repeat business will happen, but that is why we are looking at how to get the business, what product is predictable and that is what and we are really doing today, how to scale the growth and the revenue product but around one to three years is the development timeframe.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from Naredi Investments. Please go ahead.

Abhishek Agarwal: Good morning Sir. Thank you for giving me opportunity. Sir my question you are targeting two orders for Rs.2000 Crores to Rs.3000 Crores is it on track and any big order likely in current year and how much order are you expecting in FY2024?

S Rangarajan: I did not get the question you said Rs.2000 Crores to Rs.3000 Crores you want to know what is the order expected intake in FY2023 right?

Abhishek Agarwal: Yes.

S Rangarajan: I think it is upwards of Rs.700 Crores exact number I am not able to tell you, but looking at a large portion of this year the order intake will be Data Patterns products on whatever we have delivered earlier, but these contracts back-to-back has come to public sector, we expect back-to-back business from all of them I told you what I am thinking, that we go along the data will be more clearer in the first two quarters. We are also participating in number of tenders, that order intake will be higher than last year, we are working on it.

Moderator: Thank you. The next question is from Gagan Thareja from ASK Investment. Please go ahead.

Gagan Thareja: Good morning. Sir two questions from my side. One is on the work that you intend to do on the satellite side, I think you indicated that is a sizeable addition to your opportunities going ahead, so if you could give us your view of what could be the contribution from the satellite market for your revenues and profits from three to five years timeframe and the second is has the Board finalized any succession plan?

S Rangarajan: Yes we are putting lot of investments on the satellite. We have launched our own satellites with all nano satellites fully designed by us, launched and working successfully. These satellites are built with taking other satellites in mind so we built everything redundant so we have no failure and everything including ground station, all the software and hardware has been designed by us. We are trying to make serious class satellites of 120 to 200 kg plus lower orbit satellites now including payload to both for optical imaging as well as radar imaging, we are developing products ourselves and quickly we will be starting the design, which is being already used, we expect that through this we should get some development contracts as we start the development cycle itself. We expect that something will happen, but we cannot say that clearly now, but we are on the job and these will be world class satellites completely meeting our defence requirements, we have all these specifications that have been required, we are trying to meet all those specifications. So once this is developed, not only India where multiple numbers of these satellites were required for surveillance purposes but these are required across the world, so as we are building world class satellites we expect that a few satellites were launched in India the same can be available outside so able to help in one of the products we want to help Data Patterns scale, this has been one of those products, but exactly the size of revenue and business at this present time I am not able to tell you, but what we can tell you is the size is very large, and India has a competitive model and we in Data Patterns has all the knowledge to build this and worked on eight years on development of satellite and all parts of it. We are trying to see what we can do to all the satellites, then we look at the business model but in the meantime we will start marketing this product also. As far as Board's succession plan yes that is on the card so that is being discussed in every Board meeting. Last year Vijay has been inducted into Board as the COO of the company and he has more than 20 odd years, we have inducted him into the Board that he can also understand Board operations of the company. Also we are trying to build to top management structure, we are trying to recruit people from outside, and lot of activity to see that automation build is happening and the Board and all of us are working and would like to see how we can strengthen the automation moving ahead because the opportunities in front of us has been very, very, very huge, so we are understanding seizing opportunities.

Gagan Thareja: Sir I think over a period of time you indicated that the share of integrated projects will innovatively rise as you intend to go after larger scale projects, that being the case what should one think of as sustainable in terms of margins and working capital for you, if one sort of presumes that is the direction in which the quality of revenue will move?

S Rangarajan: Just because we say we are scaling it does not have to luckily come order integrated projects. We can build the radars and the radar can go into aircrafts and the aircraft radars can be 20 to 30 radars every year if you keep radars doing at now that also can scale. The quantities can come from the same avionics or electronic systems we design that is also scale. The satellite market can scale but may not be as large some are borrowed there, but those two scaling it has to be only integrated programs. What I did mention is in the event of the international products covered with care, there is margins, obviously gross margins will be lesser, so that is what we mention, it is not that scaling will happen only with integrated projects I do not think that is necessarily true. Yes in certain MoD tenders trucks that we brought together to integrate we need to buy the trucks, the UPS, generators, and lot of other things in the bottom, so we need to take this together but it is very difficult to predict what will the margin be in this contract and based on which the revenue for three years from now will be this unless the contracts are already on hand, they will be bidding for contracts, developing again those contracts so we would not be able to give you exact number on the margin. What is important is what I said in the opening remark with respect to the margin what we are worried about is the bottomline grow, the PAT grow. We are confident that we will scale more than 30% year-on-year in the coming years to go and we look at contracts which help us to see that the PAT margins are maintained. Once we do this answering second question was working capital. When the PAT margins are discharged I am sure we will do the organized working capital and there is also an element of advance which the customer gives in all these contracts, so we should be able to actually carry out what we have, the problem as what we see as we go along now. I do not see any problem in the foreseeable future working on issues for the company because we are generating lot of cash so we would be able to handle that without a problem. I can answer this question more once the contracts come in on particular time then we will be able to answer this question properly.

Gagan Thareja: Thank you. Any kind of a chip availability a bit of an issue because I think some of your peers in the public sector have pointed out that it is constraint where their ability to execute on schedule and specifically in the missile projects?

S Rangarajan: We had a problem in the last one-and-a-half to two years, there is lot of problems because predictability of the component, we place the order after seven months or six months or four months components are supposed to hit our stock and at that last moment it will get postponed, we get issues like this. To compensate and address the market what we have done two things is order ahead because of panic in the market, so stock holding has gone up because of this particular phenomenon. You see that our stock holding substantially gone up in the last one year to see that we hold stock and deliver, and not a problem on non-delivery, so we have handled that positively. Second thing one of the components in power supplies where their predictable delivery model was not there, we redesigned those portions as there was a shift in delivery and we compensate quarterly revenue with some of the products which has been delivered at that time to manage the quarterly revenue. So we have come across all of these problems. Today I think we have a fairly good hold on the component. At the present moment we do not have great challenges which we have faced one-and-a-half years back. So I think it is tapering down, but we are taking other decisions to stock and sell and also redesign, we are going ahead. The problem is not so imminent or looking large now.

Moderator: Thank you. Mr. Thareja we request you to join the queue for any followup. The next question is from the line of Vivek Gautam from GS Investments. Please go ahead.

Vivek Gautam: Just wanted to know Sir is the change in Ministry of Defense DRDO for real because earlier like the typical PSU the CMD used to change every two years and work culture were lacking due to the job securities of the employees and the time bound promotion and second thing was about the political risk in the election year if the regime changes what steps are we taking to be prepared for it in case?

S Rangarajan: DRDO MoD changes I am not very particular with, they were not recruiting people in the last two years, but looking at the risk profile we are looking at what is the risk we are addressing risk profile strategies. The second major point you talked about is the change in political scenario. In case a change in regime happens what really happens is our market will affect. I think whatever direction this government has put India in on the defence on Make in India kind of program this cannot be changed even if there will be a regime change. What has been done is the right thing, the dependency on foreigners is very, very high and this policy cannot be changed overnight so it is going to take lot of time any change happens in government's ruling, so change in other ways also will happen slowly, so we are not really unduly worried about change in regime bring change in business practices or opportunities in India.

Moderator: Thank you. The next question is from the line of Rikesh Parikh from Rockstud Capital LLP. Please go ahead.

Rikesh Parikh: Thank you for the opportunity. Sir my question relating to the order book we have a large portfolio from the development contract, so based on our past experience how much percentage of development contract converts into production and also are the margin any difference between the development and the production contract?

S Rangarajan: It is very difficult to predict the conversion ratio from development to production. We found in the last 15 years we were not able to predict it very well and it used to be ups and downs from these contracts, so we are used to this kind of rollercoaster kind of ride which is being said, so what we did we took certain strategic decisions from where we participate and what kind of contracts we participate. We are not really participating in component level PCB level systems now where you know continuous change happens in these kind of contract because new components come in the market two years down the line what we designed it so these kind of things which gives you very, very poor visibility and control over the products we are no longer participating in. We participate in contracts where a substantial sum of the percentage of the contract is designed in-house, this is where we bring in the competencies and the competitive advantage which you have since everything is designed by us, integrate the systems bring in value add here, we become competitive in terms of pricing and also in terms of timeframe we can deliver far ahead because everything is designed in-house and make the building blocks, so this is a strategic decision we took and that is paying off properly. In this we are taking the only development of main contract which has high probability of conversion into production contract can happened, but still I can only talk about high probability from knowing the customer and knowing the products we try to see what we can do and exact say when the development contract, what percentage will become production something which is not a very clear sight as of now. As far as the second question is the development contract margins are higher the production contract margin become lesser that is not necessarily true. During development contracts the gross margins whatever we have and we absorb the development cost, so probably we make lesser money because we try and develop the products, the manpower, overhead cost, the prototyping cost, fixed cost, all these costs are all incurred during development stage, but what we do is we expense the development cost as part of the development revenue itself so in that year itself we expense out and don't create overheads. The production cost happens then those additional costs which we incur and not repeated, so the gross margin remains same, until and unless otherwise volumes are large and different negotiations has to happen and the requirements have changed, but normally I would say that the gross margin remained same. Then as the year goes ahead we also compensate for foreign exchange rate change etc., our overhead change, increase, all these also compensated and priced accordingly. It is always good to have a ratio of development and production in the business which we have.

Moderator: Thank you. Ladies and gentlemen due to time constraint that would be our last question for today. I would now like to hand the conference over to Mr. Rangarajan for closing remarks. Thank you and over to you Sir!

S Rangarajan: Thank you very much for participating in this call. I can only say that we are very excited about the future. The size of business is extremely large. We have built a company with a whole lot of product competencies and capabilities. We have very high share of engineering graduates in our company. We expect to build IP and competencies going ahead. We have taken 500 Crores of QIP money to see that we build products which can scale the company multifold as we are going ahead. We have a sizeable order book, we have a sizeable visibility of orders going ahead from here, so I can see we are in the right path and we can build substantial kind of business here and the opportunities are very, very large and Made in India is going to stay and unlike others who are trying to build in collaborative Make in India we are trying to address the opportunities by building products in India which will give us a better bottomline, better EBITDA and much product scalability going ahead, so any further questions you also write to us and we will answer those questions through Go India, so we will be able to answer all the questions. Thank you for taking this call. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Go India Advisors that concludes this conference. Thank you all for joining us. You may now disconnect your lines.