DATA PATTERNS

Date: 10.08.2022

To
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra(E),
Mumbai -400051
NSE Symbol- DATAPATTNS

To
BSE Limited
25th Floor, P.J. Towers,
Dalal Street,
Mumbai- 400 001
Company Code: 543428

Sub: Disclosure under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015- Transcript of Earnings Conference Call

Dear Sir/Madam,

Further to our earlier intimation regarding the earnings call to be held on Wednesday, 03rd August, 2022 for the Unaudited Financial Results for the quarter ended 30th June, 2022, please find enclosed herewith the transcript of the same.

The transcript of the earnings call as well as the audio is also available on website of the Company. You are requested to kindly take the aforesaid on your record.

Thanking You.

For **Data Patterns (India) Limited**

Manvi Bhasin
Company Secretary and Compliance Officer

DATA PATTERNS (INDIA) LIMITED CHENNAI

Encl as above

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"Data Patterns India Limited Q1 FY-23 Earnings Conference Call"

August 3, 2022

MANAGEMENT: **MR. S. RANGARAJAN - CHAIRMAN AND MANAGING DIRECTOR, DATA PATTERNS INDIA LIMITED**
MS. REKHA MURTHY RANGARAJAN - WHOLE TIME DIRECTOR; DATA PATTERNS INDIA LIMITED
MR. VENKAT SUBRAMANIAN - CHIEF FINANCIAL OFFICER, DATA PATTERNS INDIA LIMITED.

MODERATOR: **MS. MONALI JAIN - GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Data Patterns India Limited Q1 FY23 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Monali Jain from Go India Advisors. Thank you and over to you, ma'am.

Monali Jain: Thank you. Good afternoon everyone and welcome to Data Patterns India Limited earnings call to discuss the Q1 FY23 results. We have on the call, Mr. S. Rangarajan, – Chairman and Managing Director; Ms. Rekha Murthy Rangarajan, – Whole Time Director; and Mr. Venkat Subramanian – Chief Financial officer.

We 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 risk that company faces. May I now request Mr. Rangarajan to take us through the company's business outlook and financial highlights subsequent to which we will open the floor for Q&A. Thank you and over to you, sir.

S. Rangarajan: Thank you, Monali. Good afternoon, ladies and gentlemen. And thank you for joining us today for our Q1 FY23 earnings conference call. I hope you would have seen the results presentation which has been uploaded on the exchanges and on our website.

While Venkat will take you through the results, I want to briefly touch upon the key highlights for this quarter. Despite Q1 being a seasonally weak quarter, we have delivered a strong revenue growth.

Our revenues have almost doubled on a year-on-year basis and the profitability has increased 1.4 times. And looking at the quarter 1 results closely, you will see that the gross volumes have been maintained around 64% to 65%. There is a dip in EBITDA margins on account of seasonality of the business.

Another key thing to notice, the development contracts and the production contracts have contributed equally to the revenue this quarter. This is an important highlight because development contracts provide a good visibility for our future revenues. Our order book position is strong and continues to grow.

As on date, our order book stands at Rs. 664 crores. We have close to Rs. 340 crores of order where negotiations have been completed. Out of these, we have also received the letter of intent for orders worth around Rs. 174 crores.

Once the contract negotiations are completed or converted to orders, our order book will cross Rs. 1,000 crores, which will be highest in the history of Data Patterns. During Q1 we had an order inflow for Rs. 4,456 million of production contracts.

Some of the key contracts received were, one, Avionics contract for Rs. 183 million from HAL. Avionics contact from DRDO of Rs. 104 million. A large order for electronic warfare from DRDO worth Rs. 18 million.

The other category has been ATE and Naval Systems where we have received orders worth Rs. 7 million and Rs. 10 million, respectively. We are a long-term debt free company and I utilized the proceeds from the IPO to pay off the debt and also expand our manufacturing facilities in Chennai.

The new facility is required to handle full system contracts and also to augment the production and testing infrastructure to ease our operations. The system integration facility is already being used and the remaining portion will be completed in the next 2 to 3 months. Data Pattern is now well recognized for its R&D, engineering and execution capabilities.

Every part that we manufacturer is designed within our country and within our company, resulting in an integrated operation that maximizes value addition. We are focused on building complete systems. It immediately graduate itself into an exclusively with companies we are not merely component manufacturers but provide complete solutions.

There are many macro factors supporting a strong growth for us. We believe we are strategically positioned to benefit from this growth opportunity and are confident of delivering our credit guidance of 25% to 30% revenue growth in the FY23 and maintaining high gross margins.

With this, I will hand over to Venkat for his comments. Venkat?

Venkat Subramanian: Thank you, sir. Good afternoon, ladies and gentlemen. We are happy to inform you that we have delivered a strong quarter. I would like to take you all through the financial performance of the company for the quarter and gone by.

Our revenues in Q1, almost doubled year-on-year to Rs. 68 crores and its development contracts contributed to 45% and production contributed to 40% to the revenue. Gross margin for the quarter maintained at 65% sequentially. And EBITDA margins at 31% in Q1.

Our interest expenses were minimal Rs. 2 crores having fully paid our debts. PAT during the quarter stood at Rs. 14 crores at a growth of 38% year-on-year and the EPS at Rs. 2.70. We have spent around Rs. 45 crores till now for the new facility and the cash in the books as of end of quarter 1 stands at Rs. 116 crores.

Overall, this quarter's performance was strong generating record revenues in Q1. Q4 is still a significant quarter, but we can see seasonality coming down gradually. With this, we will open the floor for the question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: First question is on the order inflow which you have received a post 30th June because it looks like you have won Rs. 211 crores worth more order. Can you help us understand where these orders have come from? Number one, and also where you writing in your presentation that you are in a negotiation stage with of Rs. 300 crores worth order more, it will be helpful if you can help us understand what are the programs where these orders are coming from?

S. Rangarajan: There are two large orders which we have finalized being L1. India for the first time is developing a space surveillance radar, this is for deep space surveillance for our defence. And for the first time, DRDO has contracted this as a complete radar to be developed, not just the electronic piece parts which we normally do, and they do integration radar.

So, we were fortunate that we were lowest quote in both the contracts. So, one contract was signed on Monday, which is about Rs. 189 crores. The other contract is going to get signed where negotiations have been completed is about Rs. 173 crores, which is what we mentioned that we have paid 100-odd crores. We have completed negotiations awaiting order.

We received LOI for this. The order is expected this week or next week. So, there are two large orders on a complete radar. The important thing on these orders is that this is only a scaled down prototype of the actual radar, which has to go to deep space surveillance.

The final radar value is expected to be a few thousand crores each, so this is a start. Once we build the system, hopefully we will do the large systems as required by Indian Defence.

So, it is a very important milestone for us to get both the radar an entire system, including building construction everything we will be doing ourselves. This is a very, very important milestone for us with these two radars.

And this is part of the Rs. 600 crores which we told you already received the orders. That is Rs. 400 crores we already had on hand by end of June. During the first quarter we receive some Rs. 40 odd crores which I explained on the start of the presentation today and then we received this Rs. 180 crores or Rs. 190 crores orders plus a few other orders we received plus the smaller from various organization we have received.

Yet to receive is this Rs. 174 crores, which is going to be another radar of the lower frequency band, which again is going to be very, very large maybe 20 times or more size of this contract once the larger orders comes. The other things you're expecting contracts are for the Avionics where negotiation is completed for LCA Mk 1A within the cockpit display. Negotiation has completed on Saturday. It is about Rs. 75 crores, so we expect the contract to happen in the next coming weeks.

Similarly, we have inquiries for mission systems for LCA. Again, we developed this long back. We are replacing important systems there, so those orders are also expected to Rs. 60 cores. We also finalized the L1 and negotiation has been completed for autonomous weapons autoloader for an autonomous battle tank.

And also the order is expected to be Rs. 31 crores. So, all in all, similarly BrahMos, the Fire Control System negotiations we completed, so order is expected nearly Rs. 60 crores. So, these are all together makes this Rs. 1,000 crores, which I talked about in the earning call.

Nitin Arora: Just to elaborate a little bit and I am sorry I am dwelling on the order wise. The state surveillance order, both one which you have received and one which we are in negotiation, this is for the army or this is for which segment the low frequency radar as well?

S. Rangarajan: one is we have completed the negotiations. We were L1 and negotiations completed about a couple of months back and the order is expecting any time now. Point 2 is this is not army or navy; this is being done by DRDO as a development contract with another foreign partner or consultant.

But the radar is to be realized in India, the full design being done by us so we will do the full design of the radar and co-design with DRDO and post this development is done I do not know MOD will probably place the order for a larger radar or how it will go. We do not know, but here the one difference is unlike most DRDO contracts, the parts are ordered and integration is done by them. Here it will be the full radar, including integration, so that is the highlight of this, and this is going to be a very large radar going ahead.

Nitin Arora: This is quite interesting, sir, because I think that was you were telling everyone that the complete radar integration we will do one day, so I think that's what the order has come for.

S. Rangarajan: Yes, the only thing we have been doing it on our own for MOD tenders and ISRO tenders where we are allowed to build full systems. For DRDO we are already doing all of electronics, but the radar integration is never done by us. This one opportunity which came, we said that this we need to do because this is our core competency, we have to build the system and the future radar is going to be huge, really huge, larger radar will be probably done in India.

So, that is important to us and very, very happy that we could back this contract and a lot of effort is going on in next two years to make this real.

Nitin Arora: And then just lastly before I come back in the queue, the Avionics order of LCA Mk 1, you said there are two orders. One is for Avionics and one more order. Now if you can help us clarify because one order I remember for the newer MK1 they want to put the electronic warfare system from an Indian entity rather the domestic part and as well as the avionics and radar part. Now, can you help us understand what is this Rs. 73 crores have come from which system for LCA and the Rs. 60 crores one?

S. Rangarajan: See we are not talking EWR radar here. These are all done by us way back in 2005. We have designed the cockpit display for LCA and what is flying in LCA is our systems. And based on that for the additional orders about a few 100 pieces they have ordered now. Negotiation is going on for many months, it is got finalized Saturday, so that we will be delivering.

Second is the mission computer, which have been actually imported all along. We have replaced that and we delivered some 200 systems, 200 hardware boards last year to DRDO and to HAL. Further orders we have received now and some more inquiries have come and similar tender for that around 500 odd pieces, Rs. 753 crores orders we should get.

So, these are all single tender orders because based on earlier design products which we are getting for this program. Coming back to the first part of your question on EW and RWR. We have delivered a solar RWR to DRDO. Now they are expected in the LPA and it is flight testing is happening on that, so we will solve this successful. The expectation is that will be fitted into the LCA Mk 1A and other fighter platforms.

We are also expecting contracts on **(Inaudible 14:13)** and other variants so that this can do. Also in LCA Mk 1Awe have done a smaller version for Mk1A to do form fit inside the space available there and also we are expecting contract.

But these are all not actually these are all future contracts are expected, but the basic version we have delivered is already flying in MCA and the flight testing is happening, so based on success of the test we expect additional orders to happen, but that is not part of projections today because we have not projected that as part of the Rs. 1,000 crores is not part of it.

As far as the radar is concerned, we presently are not in that area. We are expecting we want to get into this, but at the present moment we are not contributing the radar, which you are talking.

Nitin Arora: Okay. Because there were news in media that the new LCA Mk 1, there might be an Uttam radar which they might go ahead with which generally I think extra microwave mix. Any comment on that or we just got confused in that?

S. Rangarajan: That is also on testing. That is what India wants to. So, it is on testing, yes.

Moderator: Thank you. The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: So, my first question is regarding the margins. I think you had guided for 65% to 70% gross margins that the company should clock going forward and one should not look at last year margins as a barometer. And also you made a comment in previous calls that you would this high margins in certain contracts will be used to bid for new contracts, large value contracts at some aggressive prices.

So, how should we look at the gross margin profile going forward? Do you think on a blended basis, we will still be in that 65% to 70% gross margin range? Or with these large value integration orders this gross margin range would come down much lower. If you could give some more color on that?

S. Rangarajan: As we said last year last call, I think this year quarter projections will be aimed at a 65% gross margin for this year at the enhanced sales whatever the guidance we have given we will try to do that. I have not comment for next year yet and second the orders which is coming now some of them are executable this year, but last part of the contracts we are talking this Rs. 300 crores, Rs. 400 crores we will get, or Rs. 600 or Rs. 500 crores will get executed next year.

So, there is a timeline for the contracts. So, this will not affect this year performance in terms of gross margin for the time being. To answer your another question system integration contracts, yes, what happens is while we retain the electronic design which we do equipment design, we do retain, some healthy gross margin above 60% normally we keep even because a lot of design effort goes and IP goes into this.

What happens when we integrate big systems when you buy generators in big buildings and you put structures, obviously we cannot add 60% to that and we expect to be L1. It is not really practical, so we need to look at their program point of view and take a call. Not necessary, only in gross line, what is competitive numbers. But going ahead what happens? Let us take these two contracts and we scale this 20 times radar. This is only scaled on radar.

The next radar is going to be 15 to 20 times bigger, each radar. So, we do that. Then what really scarce is the electronics and then the building and all other things is separate construction really happens to it.

So, at that level we have protected our systems and so that tomorrow when scale happens, we have reasonable margins, obviously with size of business, margins may be different and what we are more looking at is revenue growth and bottom line growth, not particular margin on each vendor, each part is not, a particular margin is necessary on equipment which you do, because a lot of IP goes into development and are we competitive in an international scale with what we are quoting is what we are seeing.

Because we reinvest on the development and continue to build the product as a product over the next 7 to 10 years time. So, we need the margins to drive the business, but our system integration contracts like this, obviously we have to be competitive.

But what I can say is as the revenue grows our bottom line also will grow, we are not taking revenue at the cost of the bottom line.

Sandeep Tulsiyan: That is fairly understood. What I was trying to understand is these two orders which you have received, broadly what would be the electronics portion or this is primarily electronics and only bought out typically what are the margins? Are they low single digits, are they are in early double digit? If you could just give us some sense that could help us assess the gross margins for these orders?

S. Rangarajan: I prefer to give an estimate for next year, not contract price, because these are sensitive information and we do not want this distributor know how I quote for which contracts from the competitors. I hope you understand.

Sandeep Tulsiyan: I understood on that front. Second question was on the ratio that you typically shared on the single vendor contracts versus the competitively won contracts. So, for this year, how do you see that ratio? Typically, the 60% to 70% of our contracts for one on single vendor basis. If you could give some more color on FY23 order inflows how that would look?

And second part to that is also on the export space. We have been reading in news a lot of these LCA and BrahMos and other systems will be exported. So, what is the order pipeline on the export front? Those are the two final questions.

S. Rangarajan: Okay, see most of the contracts we get are single vendor which is a predictable business for us and that is what we plan for future what order we are getting so pipeline or project and the business plan we make internally is all based on largely single vendor contracts.

Because when you go for a competitive bid, we do not know whether it is a 01 situation. So, we don't really predict on that. But good thing is, today we also have one single competitive bids and that is a sizable bids have been won by us in few case situations, which is good.

So, that is also adding to our overall thing, because of the large contract we've got, our single vendor contracts we are talking about 50% to 60% will be single vendor contracts and the rest is competitive bid.

But all the projections for this year in terms of Rs. 400 crores, Rs. 500 crores, as I said for FY22-23 order intake or January to FY23 end I had made some projections last year, that does not include this Rs. 400 crores, Rs. 500 crores of competitive bids. So, what really is going to happen is I think we will exceed our order intake projections given in the last call last year.

So, that is what is happening, but to answer your questions about 55% to 60% or 50% to 60% single vendor contracts.

And in exports, I think we should do about 10% exports this year and we are discussion with started this more. So, we got an order for about £0.5 million order last month. We are expecting those contracts to happen. And more countries are talking to us in terms of development requirements.

So, hopefully with time it will grow, but today it's about 10% of our revenue. And the third part is export on BrahMos and things like that. We've already finalized the contract with them. That is expected about Rs. 60 crores which is to be coming.

I am giving you a wholesome numbers, not exact numbers, but this is for Fire Control System which we have designed but BrahMos will stay starting back to 2002. So, the order keeps coming and there are more requirements from naval base Of India and also is coming.

But it is not an export. We delivered.

Venkat Subramanian: We delivered to BrahMos only. BrahMos in turn deliver it as a full system, export it as a full system. For us it is only a domestic sale.

S. Rangarajan: And MCA as you know, I don't think there's any export order.

Sandeep Tulsiyan: Okay, and just if you don't mind, could you disclose these two large orders which you won under competition? Who were the other bidders and what could have been the price differential between yourself and the others? Could you give some color there?

S. Rangarajan: Firstly, I don't have full data. I know the competitors but I do not have full data what is the L2 price because they didn't disclose the price. While our price had disclosed with competitors because they had to negotiate with us, they did not disclose.

So, I have a guesstimate but not the exact numbers. Is that relevant here? You can always I can talk to you one on one and give you that data.

Maybe I can take. Sandeep, I will also tell you the major competitors were L&T, Bharat Electronics, Tata. These are the kinds of companies who quoted there.

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

Akshay Kothari: Sir, I wanted to understand on the Rs. 211 crores order inflow which we have received post 30th June, would the orders be mostly on the development side?

S. Rangarajan: No, whatever we received on first quarter, this radar is a development contract, but that is after this quarter only we receive. First quarter we received is about Rs. 45 crores mostly as a repeat production orders, these are not development contracts.

The bigger orders we now are all development contracts, but whatever we've already received are not development contracts. This is already done and earlier delivered, which are repeat contract for us.

Akshay Kothari: I am talking about the post first quarter, 30th June?

S. Rangarajan: Yes, post first quarter the two, three large contracts are development contracts which is the two radars, space surveillance and one for the tank's automatic loader for the tank. These are development contracts but other than that for the avionics and for BrahMos etcetera, whatever we got for communications and all that, these are all production contracts because already we've delivered this earlier so it's a production or repeat order for us.

Akshay Kothari: On the developmental order side, I'm assuming that our order execution cycle and working capital cycle, both are little bit different because the thing is in development, we have facilities like stage finance thing and we also avail some non fund facility.

So, even if our order executions cycle may look a little bit elongated our working capital cycle is not that elongated. Am I right in that assumption?

S. Rangarajan: Yes, all the development contracts I think most are 30% advance and there's also stage payment on part deliveries also there against bank balance. So, mostly in non-funds we are getting money in this and both these orders will be two-year delivery cycle, 18 months for delivery.

So, next year it has to get delivered. On the production contracts so-called there also we can advance. These are DRDO and BrahMos contracts and even HAL contracts though it's a repeat contract, we are getting some advance there also, so those are upfront also there. So, the cash flow is not a problem, we get, we can advance and we can deliver part delivery and during part delivery we get payment for the delivered parts. So, there is a stage wise delivery and a stage wise collection, so it's not a problem. Whatever contact we received till now there is not an issue on these things.

Akshay Kothari: Okay, so the guidance which we gave of maintaining 280 to 300 days of working capital remains intact, right?

S. Rangarajan: Yes, what's happening is it maybe we are trying to do the debtors cycles are coming down but what is happening is our components stock material inventory is going up. This is mostly because we are taking some proactive steps to see that though the contract is a long term, we're ordering materials ahead of time because there is a problem with the electronic components, electronic components, suddenly we find that the scheduled delivery gets extended and that will get extended on the month of delivery or the week of delivery, which puts us a lot of considerable risk on producing and delivering where all the material is available.

So, we are now taking more important things that we need to deliver. So, we have started stocking materials so our inventory holding is going up. But on the whole, the debtors are coming down, so this is because of the business cycle today Covid, post-COVID, issues on electronic components. The intent is to see that cash flows are there and working capital cycles are brought down.

Akshay Kothari: And so on the revenue guidance, the 25%, 30% revenue guidance, as per my calculations would this guidance be more on a conservative side?

S. Rangarajan: Okay, see, we would like to retain the guidance the way it is, bit conservative, maybe but redirect at the present moment because these are project deliverables, there are some development contacts some development delays will be there or inspection delays. Some component does not come so we want to ensure that whatever guidance we give, we exceed on the guidance. So, that is why we are maintaining the guidance as needed.

Venkat Subramanian: And these large value orders are all deliverable only after 18 to 24 months. So, that way it is, I mean, this year it is going to be almost same 25%, 30% is sustainable. Going forward, we may revise the guidance if in case we think it appropriate.

Akshay Kothari: And sir, in the investor presentation you have mentioned that Rs. 300 crores of further orders are expected in FY23 in the 30th of June investor presentation. So, post that we have received Rs. 211 crores. So, we would be expecting another Rs. 100 crores that way?

S. Rangarajan: No, we should expect, I told you know these kind of tender bids, we don't really cannot consider for the projection earlier days. So, these have come now, so I think we will exceed guidance on the order intake for FY23 will go up.

Venkat Subramanian: Yes it will go up by further Rs. 300 crores is what we have made it in the presentation.

Akshay Kothari: That's very good. And my last question would be on the innovation. So, you did mention about radar. So, what I would like to know is, on the newer product side, basically on the innovation part. Which are the new products which are in the pipeline and where are we planning to go with that? If you could give a sense of that?

S. Rangarajan: We are trying to do a whole range in radars. On airborne radars we started designing airborne radar. We have already delivered one to DRDO, which is flight tested in Dornier. There is a Dornier upgrade program may be post that it is happening so towards that we already started development of an airborne radar which has got a good likelihood of requirements in India.

So, then we are also doing some work on the radios. We've delivered the first few pieces for fighter aircraft, software defined radios to DRDO, where they're putting the waveforms and then it's expected to be flight tested in HCF at the start and also other platforms going ahead.

This is uniquely different because we're now importing from the file and where we meet all the specifications in terms of hardware. We also have local encryption Indian encryption to be added that also we have made provisions here to meets and exceeds all these specifications.

We've already qualified the system for flight data reviews, so based on the flight test done by DRDO and acceptance, this can also go through other platforms. A variant of that also we received an order for a ground application on vehicle mounted applications that we received. The order we got a month back we could execute it in the next three to four months' time.

So, things variants of that we're trying to build. We're also doing a variant of that for radio relay for a surveillance UV application. I have been saying that we have not only to look at MoD but we also will have to do and India has to be self reliant and build more in India. We need to build Indian ecosystem towards that, the first part we will talk to a platform vendor and then doing parts of the equipment and all the aircraft equipment in India.

We are planning to do far more aggressively those kind of equipment build, so which goes into their platform and then if they sell that platform, we start getting additional numbers. They are already started doing that. This is the second area. The third area is also we are working a lot of EW.

We delivered last one year we have delivered a number of newer generation EW products it was from HF up to 40 gigahertz. An enormous range of products, all are very small footprint form factors which can get as a building block which can go to air, water, underwater you know ground all of them, it can go to all platforms.

We expect that variance of that can get used in various applications, including MoD tenders. We are also looking at actively developing additional capabilities for macro and mini satellites including payload.

That is another work we are doing where the entire system can get done. We're also working on some data links and waveforms for data link for line-of-sight applications. So, we do your host of stuff on product development from an Indian context, but it will be all positioned as an international product.

See that equipments are designed in India rather than import technology and build manufacturing equipment here. The idea is to differentiate ourselves and be the equipment vendor. This is why we have 480 engineers working with us. We are scaling the engineering capability.

We are recruiting more people and we've now really nearly 900 people. I think in the next few. months we will cross 1,000. We have recruited a lot of people. Second, we also created infrastructure. We're creating additional test infrastructure, equipment test infrastructure, and all of them. These are all keeping in line with what we have as a future vision to build state of art internationally qualified kind of systems from India which can be export capable. So, we do a host of stuff on that, Akshay.

Moderator: Thank you. The next question is from the line of Renu Baid from my IIFL Securities. Please go ahead.

Renu Baid: I just have one or two questions largely on the order inflow side. While you did mention of this new Rs. 200 crores of orders that we got in 2Q. Can you share some update on the large program for which you were expecting both in Himshakti as well as the other projects?

S. Rangarajan: Yes, see what has happened is last year when we went on the call I have said this year order intake will be these kinds of orders, Himshakti, **(Inaudible) 34:36**, etcetera. But there have been some delays. We thought the orders would be signed last year by Bharat Electronics and back-to-back we should get some contracts but that got postponed. But what I hear from market is that there is any time about to be signed. We don't know what the any time is, it is your guess is as good as mine. But what we hear is it is going get done. So, back-to-back I think you're on a call with BEL, they should give you all clear indications of when it's going to get signed.

Hopefully, after they sign we should start talking to them on the subsystems for, but I expect this to happen this calendar year. Second is on the Arudra again. Again I think they are in discussion or negotiation. The tender is already submitted many months back.

So, again, BEL is in negotiations. Again what we hear is that there this that should be finalized and back-to-back order should also flow this year. These two orders. The third one is the LLTR, which is Ashwini. I think Air Force is starting to move the paperwork for AOM in that. So, there is lot of correspondence activity happening so this also should happen this year, at least take off this year and maybe contact happening next year, but these are all in the cards. There are other programs which we did not talk about was the NETRA 2, which is contract which has come for early warning radar.

Aircrafts could get and already bought by DRDO Airbus A321 and they are upgrading the aircrafts to radars and electronic warfare and other things. So, we also should be playing a role in that. The size of role is as of now not clear, but we will play a role.

So, those are the contracts which is happening. Staff development contract should happen this. Here it is again the other program for Dornier upgrade. Again some contracts may come to that in that order also.

Again, size of contact this is not the time to talk about it. As and when it happens we will update you on the kind of contracts. But we are working towards all of them and it seems that there are quite a lot of activity happening. There are new radars which are being planned. Some activities happening. We already quoted and become L1 in one Air Force program upgrade, which is Aerostat, EW upgrade of Aerostat.

That again we expect contract anytime now. And that's an exciting contract because it has **(Inaudible) 37:11** of them and the full system upgrade will be with their version capability.

All of them will do that gives a lot of confidence that what is originally imported is now completely being designed by an Indian company. That gives a lot of confidence to our services. We expect that these kind of contracts will be just starting to let India bloom as an equipment supplier which is world class.

So, we are very focused on such contracts which will help us scale not just the business but on a competency model which is then it is worldwide you can go and sell. We can use India as a platform to validate give an international quality product here and take it global. This is our interest and these are all small orders, which is, I think, building block to see how we can be successful in future.

Renu Baid: Yes, this Aerostat order which you mentioned these are L1. What would be the value or size of this project?

S. Rangarajan: There's about Rs. 18 crores.

Renu Baid: And just to round up the Rs. 300 crores order which you mentioned should come in the subsequent next 3-6 months. Essentially would include Himshakti, Arudra; these two projects together?

S. Rangarajan: No, we've not include Himshakti in that. No, even there Himshakti, I have not added Himshakti in that. There are some I don't want to say which contract because it's a bit premature, but I'm giving guidance of Rs. 300 crores. We can exceed that if Himshakti kind of thing happens, this can get exceeded, but I have not planned Himshakti in this year of course.

Renu Baid: I am just trying to clarify. So, in 2Q we have already received Rs. 211 crores worth of orders which was over and above what we were indicating earlier. In addition, we have guided for another Rs. 300 crores worth of new orders in the next 6-9 months, which you're saying may not, as if Himshakti comes there could be positive upsides to this Rs. 300 crores of incremental orders in the second half of the current fiscal?

S. Rangarajan: Correct.

Renu Baid: Okay, so which is interesting. And lastly, if you look at the broad of issues of supply chains, semiconductors, how is the situation now versus last quarter? Have you seen material improvement? Are you seeing acceleration in project execution, including projects which were delayed, or you think some of these problems may continue to persist for some time? So, any comments on this?

S. Rangarajan: Yes, see there is a general improvement, but certain types of component from some manufacturers are still slated 52 weeks and 60 weeks. What we are doing is placing orders and expecting improvement in the delivery schedules, but while placing orders they are not willing to commit any earlier timeframe. There are a few companies who are doing this. So, we are looking at alternates to in case it does not come, can we do a redesign of those parts, use some of the parts. So, those kinds of mitigation practices are following, but we do not want to do that all the time. So, we are placing orders ahead, hoping that the government will come, but yes in general the situation improved, but still there are specifics and issues and every single component has a problem, one component does not come we cannot deliver the product. So, from that perspective, we are very cautious and probably taking additional decisions to stock inventory.

Renu Baid: Right and lastly, any developments to share on the space side, or you think it is still a little too early, and we may have something written later during the year rather than now?

S. Rangarajan: Yes, we are working on some, but it has not come to any situation where we can announce anything.

Renu Baid: No problem sir. Good performance. Thank you and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Gagan Thareja from B&K Securities. Please go ahead.

Gagan Thareja: First question is around the order book. I am slightly confused. Orders on hand is 663 crores and negotiated orders with LOI received is 174, negotiated and yet to receive LOI is 168. So, that is theoretically another 330, 340 crores possible? Are you saying there is another 300 crores over and above that or are you saying this is a 300 crores additionally over 663 crores plus whatever you could get from Himshakti, Arudra and Ashwini?

S. Rangarajan: This is what Renu asked. What I am saying it is already negotiated contracts. The contracts expected probably this month, next month, maybe this month we should get all the contract with us. Already declared L1 and negotiations completed. So, with these contracts happening as I was saying that we will cross across into our order book, which is what has been given in the press release. But earlier, we had given guidance last year that we will do some 400-500 crores of order intake during the course of FY23. In that we are not catered for tender orders. What we have been given guidance was based on some of the larger orders, which has come coming based on single vendor contracts. So, there is the predictability. Only timelines get shifted and that is what we gave, but these are tender orders we got, which is a good thing. So, I retain that we still maintain that some of the new things that happened in the last few months where we believe the contracts will happen. So, I put additional under the 300 crores if possible during the course of FY23 is what we are seeing now and if Himshakti and some contract happened that will be a bonus.

Gagan Thareja: Great and also the 173 and 168 crores orders. Is this the surveillance radar order and low frequency bandwidth order, if got it correctly, or am I missing?

S. Rangarajan: Yes these are two particular radars. One is an S-band and the other one is UHF what I call low frequencies, ultra-high frequency but that is about 6 times because we are doing **10** GHZ now. So, they are two separate orders. These are scaled down radars, you know probably 15 times 20 times scaled down. To validate the radar performance everything else is a building block, design is common. Per scale the radar increase the number of building blocks so let's say one two story building I do. It can be a 20-story building tomorrow. There, the radar get housed on the sidewall. So, the size of order is very large, it is going to deep space and tracking deep space requirements because I cannot talk about specific applications. I am not even authorized to understand this and working with DRDO on this, but the very fact that we are building different radar for them in the next 18-20 months is what we are supposed to deliver. So, those are two radars, which is very exciting for us. Because these are future technologies and the size of business can be very large tomorrow once we deliver the products and these will be integrated radar so the repeat requirements we believe hopefully will come to us.

Gagan Thareja: So, the scaled down versions will be tested and validated and then the final full-scale radars will be ordered. If you could give us?

S. Rangarajan: Do not know it is one or many. India is a large country with a large space to manage our space assets. So, we do not have an exact plan, how many will happen, but it will be sizable.

Gagan Thareja: Right. So, what will be the timeline for testing and validating the scaled down versions?

S. Rangarajan: Delivery is about 18-20 months and after that they will test it, but once the basic systems are functioning, they are saying that we will go ahead and start planning for the big radar because then really the big radar will take time because it is a very large very, very, very large system and probably the largest radar India will design, both the radars, individually largest radar. We are talking 1000s of kilometers to be tracked in some way. It is a large radar. So, they may take once the base systems are coming in picture. It depends on what government does send. The MoD is thinking to see something happening, maybe they will initiate it early or subsequent wait, I am not really at liberty to say that I have no public data on this, but it will happen. We are very-very scheduled to 18 months to 24 months.

Gagan Thareja: **O**kay and the design of these radars is DRDO or is it your own design?

S. Rangarajan: The architecture design is DRDO. We do all the subsystem design, electronic keys for PCB all of them we design. Of course, anything you design will be supervised and managed by DRDO and we design development but there will be final design authority but we are doing all the part design like we have been doing all along. We design all the antennas, all the radars everything the mechanical structures movement mechanism, everything we will design and of course validated by DRDO.

Gagan Thareja: Right and you indicated execution is 18 to 20 months for these orders and what would be the execution period for the 663 crores orders on hand.

S. Rangarajan: All are in the next few years except the one order which can go to third year which is the cockpit display which is a clear order but we have an option to do early delivery also. So, we decide what we want to do whether to keep it third year or we can do it in second year.

Gagan Thareja: So, the entire potential 1000 crore order book has an execution timeframe of 20 to 24 months

S. Rangarajan: Yes.

Gagan Thareja: Right and when you when you say you are moving into system integration orders. Is it first of all possible to understand all this 1000 crores how much I mean ballpark what proportion is system integration and what is simply pure product subsystems and so, on?

S. Rangarajan: Largely except for these two radar which is building construction and all of those things and our system is an integrated radar system. The rest of all our systems of course, we have some 100 to 200 crores condition our radar will deliver this year or next year a lot of mechanical stuff and all that in that but the design is fully ours in all of them. So, we call it as our own system but here there are bought outs in those things, which is not there on the order we are doing. So, largely except for 300 or 400 crores, 600 crores will be our own systems in the existing 1000 crores.

Gagan Thareja: Since BEL is a large integrator of electronic systems for DRDO and MoD and so on. Are there gross margins representative of what system integration margins can look like?

S. Rangarajan: See these are two flavors, Bharat Electronics gets most of the contracts on nomination basis. So, I really cannot say how they're pricing the product, because it is between government departments orders are done whereas when we call it is on a competitive basis. So, we need to look at that and price it accordingly. So, I will not be able to directly say their bottom line, those system integration has a bottom line which should expand, like 20% more than that or higher than that. That's not a statement I can make because I do not know how they make that margins really what contracts part is being done. They will look at product specific programs specific requirements take our call on what is competitive and what is accepting to us and make an order. So, it's very difficult and second is without competition you do, things will be very different. So, we cannot really compare like that.

Gagan Thareja: On developmental contracts, you get 30% advances if I got it correctly. On production contracts what is the advances, integration orders, what's the advances like?

S. Rangarajan: Without development you cannot say all are giving 30% because open tender comes they say no advance, more guaranteed people give us 3% and after delivery only we get money that also is there. But in these contracts in HAL we have a 30% advance and some on the production a repeat contracts next year, we have 15% or 20% advance and tenders as per Draft 2020 we are allowed to give 15% advance to 20% advance on the contract value and stage payment happens on part deliverables in one year or say every three months you deliver something on that there's a percentage pay either the value of the unit is paid less advance or they have a defined stage payment for delivery. So, both are possible this is the MoD tenders. So, some contracts also come without advance, but largely here now we have got contracts in advance.

Gagan Thareja: So, finally networking capital on integrated system contracts, would it be similar to what you have so far had on your product and product contracts or is it going to be a little different a very different from that.

S. Rangarajan: Very interesting question, we are going to do the system now, we will try to some vendors to do back-to-back if they may not agree, okay, so we need to negotiate better terms for us. Otherwise, what happens is stocking closer is a bit more, but what happened is DRDO always understands the larger order and regular stage payment against bank guarantee. So, again, non-fund limit, other than the advance, you also have another stage payment, where we can show procurement happening and then it's the money so the cash flows are slightly ease out, all that is possible. But from networking capital days when we say there may be a bump because of last contracts, something will happen. But what we will do in this situation is try to get the ball towards the final stage, not during development stage in the first one year, get them right in time, just in time accepted, take it directly to field. We will not try to bring it to a factory and keep it here unlike raw materials, which we keep here and manufacture and test and validate. Those things will be done at subcontractor place a vendors place where customers go on holiday they will ship directly to the site. So, that is how we want to plan our working capital. Hopefully, we plan it well, see that we will not have issues.

Gagan Thareja: Sir if I am allowed one more or if not, I will get back in the queue. If you are okay, I will ask one more question.

S. Rangarajan: I have no problem. But the organizer has to decide. I have no idea who is waiting.

Gagan Thareja: Okay. Sir you know you make seekers for BrahMos, missile seekers, simply because our missile programmers are now fairly comprehensive. QRSAM, MRSAM, and very short-range air defense systems, and portable GM so on so forth. Do you have any plan to expand your footprint on the seeker side?

S. Rangarajan: See to be honest, we have all the competency to build whatever you are saying, presently, these are all transfer technology imported coming to the country. If we get an opportunity to quote against such requirements 100% we will do it and from small weapons to larger seekers weapons, their competency model which can build it. But what happens is that comes as a weapon MRSAM or we are talking about QRSAM. So, you are buying a weapon, you buy parts of it transfer technology, it comes to manufacturing here, it goes to pieces. But what is happening, so whereas to when this facility happens when you can design products here, then definitely we will be standing in line or in the front of the line to see the real opportunity, but it's not it is a competency, it's a question of getting the right opportunity to build it. It is not that we like to expand capability to build we have the capability. But we need a contract to build because we cannot build general specifications for APGM or anything for that matter. How will I put it part of weapon that is a tricky part and unless you are allowed to put the weapon and do testing, you cannot do this. So, there is no point in designing things in these kind of situations. Without the weapon manufacturer or the buyer, participating in the program, giving you a specification and then building validate. So, that's I'm saying all along, we need an Indian ecosystem to say we develop here. One the government is doing is saying 50% Indian content in every contract is a start, there's a Mk 1 which we are saying is the second start with this we can do and then technology development **IDECK, IDECK 55.12** are small parts small within systems, not for these kind of complex systems were weapons has also to develop. So, as an ecosystem grows, I think people like us will pay a very large role in building the competencies and the products, so that it can be truly made in India kind of system?

Gagan Thareja: **A**nd basis, the work that you have done, for developmental work for DRDO, which is now sort of coming to fruition, and will scale up what sort of, potential pipeline in radars and electronic warfare systems and avionic display systems and so on. Do you foresee in the next two, three years where you give or figure in your presentation? You know, you've already received sizable part of that figure, right away in this year itself? So, therefore, I'm simply trying to understand what's the potential pipeline? What are the areas, which will be critical and how large could the opportunity be over the next three, four years?

S. Rangarajan: Yes we showed Rs. 2 to 3 billion as 200 to 300 crores, plus that remains as a pipeline, because no part of the pipeline has been realized as of now, these are all different contracts. Nothing to do with the pipeline projected and the pipeline will go up, because we're developing more products now and if US has qualified and comes for other programs that also can get added. So, the pipeline remains intact. We thought some of them will start this year. But we say two to three years only, earlier also we said 2-3 years because the decision-making time is going to be long term though there have been you we have quantified the systems tendering will for the repeat requirement has to happen, funding has to happen and then after that back-to-back contracts has happened. So, that is why we said and some of the programs like RWR or ELINT and airborne systems takes time because once flight testing happens, funding has begun upgrades, and then only this will happen but there is enormous potential because there are too many aircrafts, too many types of aircrafts, in all of them electronics is obsolete or going obsolete. So, the airframe flies for 40 years, electronics does not fly for so many years. So, there is an urgent need to upgrade it remains the same as combat, so requirements are large, if I say now how do you address requirement meet customer expectations and after that, they have to ensure that money and timeframe for upgradation is done and we are there at the time. So, these are the factors so that's why we did not put a timeline about 3-4 years this pipeline is there and we still expect the pipeline to be there and it should grow.

Gagan Thareja: And finally sir from a manpower perspective, since now these are all sort of sunrise sectors and there is obviously high demand for experienced and talented engineers in this area. Is it relatively difficult for you to get the requisite manpower with the requisite work experience or is it increasingly getting more difficult or you feel that you know, that's not an issue at all?

S. Rangarajan: We have great the manpower when development manpower, project management manpower, HR production and then management. In the general-purpose area like management, HR these are people get lateral hires to do this and build up competency and the top layer can get built, the top and middleman can be build. Similarly, product management can be lateral recruits and once one or two years of training with us with our way of working, you also fit in which is what our experience has been with either two. So, on the lower end if you look at development skills and things like that, production and development, what we are doing is we take fresh graduates and train them. We have been doing this for 15-20 plus years now. Only on scale of people number of people we are taking now is in-house**,** where inhouse training. In-house our own champions of training, our own engineers training we have outside people coming in and training them. So, training is a fundamental part of our recruiting process, but in fact we even take it nine months ahead of job, take them as training engineers on when they are in fourth year and see that they do the projects here. We give them salaries and take them in. So, they continue to work as we go along. We found good success in that. So, on that area of technology, which you are talking about, we do not normally hire laterals, because like you said, it is very difficult to get the kind of people who we want and we are not tired from competition also, the homegrown inhouse training is what we will sort it to till day. Going ahead, it may change, but as of now, this is the plan. We are not really looking at lateral hires for those kinds of positions. But we are confident we need to beef up our HR process, our training, procedures, recruitment, yes, we do have problems of hiring. There is an issue on that. There is a demand, there is a gap, we are trying to address the gap as you go along and with scaling happening, we are looking at what is what kind of staff positions are getting opened, how we plan for it is enormous work. It is actually capacity building work. We are seized of that particular problem and we are finding solutions to how to do this and how to multiplex, how to reduce the largeness of the work into smaller pieces. So, youngsters can do.

S. Rangarajan: Like the work basically. See that they come up and do the technical.

S. Rangarajan: So, we are addressing the problem at various levels, but I think we will build the competency because they have all 900 people we have, most of them 800 plus have been built internally by us.

S. Rangarajan: As they are all homegrown, more or less.

S. Rangarajan: And our average age is 23-24 for all the 900 we see obviously we have senior people so we have a young crowd and willing to learn and there is a lot of ownership in our company. Well, two of the people are our shareholders and data partners. There is a lot of ownership. We wanted to build a large organization together.

Gagan Thareja: **A**nd your thoughts on succession planning.

S. Rangarajan: We already have we recruited last AGM, we recruited Vijay, who is the COO, he is about 20 years with Data Patterns, the young. He has gotten as a director on the board. So, the way we are re looking at each part of each role, and how do we want to build the role? How do you build up so this is one of the agenda points the board has given us and we are working on who are the guys who will take our positions? How do you scale? You are asking the right question, because this is the discussion at the board meeting even yesterday,

S. Rangarajan: We have started actively, we have already identified a few positions, and we have been going to take it for.

S. Rangarajan: The thing is as it is homegrown business. It is a very closely knit organization. So, the top management is all together, all decision makings together. There is no hierarchy in that sense. So, every decision is shared and owned and all problems are common and understood. So, we should be able to build this for everything.

Gagan Thareja: Thanks. Thanks and wish you all the best sir.

Moderator: Thank you. The next question is from the line of Mudit Kabra from Elara capital. Please go ahead.

Mudit Kabra: Congratulations on great numbers. My first question is like with this bigger margin of 31% in Q1, what would be your outlook for the whole year for EBITDA margins? Sir, considering 31% EBITDA margin in Q1, like what is your outlook for the whole year?

S. Rangarajan: See, we have told you earlier we will do 40% EBITDA. We will continue to keep the guidance because what happens see the EBITDA is a function of revenue and gross margin and overhead expenses. See our revenue is not evenly distributed all quarters. So, the last quarter becomes high revenue, but the overhead remains same in all quarters. So, EBITDA, then quarter-to-quarter is low in the first three quarters, as was quarter jumps up and overall EBITDA. I think around 40% guidance, so you will need to do that. But what is interesting is from year-on-year basis first quarter 21-22 to this quarter our EBITDA has gone up. Okay, overhead have gone up, expenses have gone up, and even the gross margin has come down doing some few contracts, our EBITDA has actually gone up. So, we will continue to keep the guidance of 40% EBITDA.

Mudit Kabra: Okay and another question is like, as we are pulling more of our order book from radar contracts, and recently, you have disclosed as this LOI order is regarding a space surveillance radar, which is a big size. So, can we expect higher gross margins higher margins in the coming year when these orders will be executed like higher than 65 to 60% what you have guided for.

S. Rangarajan: We are already a very high-cost margin company, we will have gross margin in a large contracts in competition with L&T, Tata, BEL and all that. We think is feasible, I think our gross margin is higher it comes from basically because we have done internal design and the IP is getting captured there. But it is system integration the IC is not there and it is competitive model across so obviously, the gross margin there is going to be lower. Because when you buy an integrator, you better have that kind of margin in what we do in design. The design is done over many years and this is all written off, you are seeing it today having his last one. So, obviously, it will not be like that, but what I would say is, the revenue will go up, the bottom line also will go up on a year-on-year basis. That is what we are doing and today we have to scale to a large corporate, I need to build the end equipment, we cannot be a part supplier and then expect to do a few 1000 crores of business year-on-year. If you want to do that, you need to build systems like this. So, our aim is to grow. So, what is to do you do but then do India keep the margin profile as intact as possible in a cognitive scenario, by doing more India, where others import and do we try and do more in India and that is where gross margin really comes up, but when that is not there, then we need to compete on the same kind of floor, then obviously, we have a similar gross margin, but then it is never same because a whole lot of electronic systems gets added because that is a core competency and that is the programs we are selling in. So, there will be some difference where we have flexibility in terms of pricing.

Mudit Kabra: Got it. Thank you, sir. Thank you.

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

S. Rangarajan: Thank you, thank you all for taking this hour plus to ask questions and information and interest show in Data Partners. Again, I reiterate that we are in line with what our projections matter of fact, our order intake will go. We are enthused because more programs are getting opened up for industry and large opportunities are getting created for people like us. We will continue to strive to build high technology, high IP products in India as against importing and build the entire equipment here. That is how we like to scale and some opportunities have, turn fruitful, we hope to deliver all this in time, see that we can build a strong foundation for future. So, thank you very much. Any questions you are always ready to Go India further questions and we will be very glad to answer them. Thank you very much.

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