"Data Patterns (India) Limited
Q3 FY '24 Earnings Conference Call"
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MODERATOR: **MS. MONALI JAIN – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to Data Patterns India Limited Q3 FY24 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone.

Please note that this conference has been 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, Manuja. Good morning, everyone, and welcome to Data Patterns India Limited Earnings Conference Call to discuss the Q3 and 9-month FY24 results. We have on the call Mr. S. Rangarajan, Chairman and Managing 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 risks that companies face.

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 morning, ladies and gentlemen, and thank you for joining us today for Q3 and 9-month FY24 results call. I hope you had a chance to go through the earnings presentation, which is available on both the stock exchanges and on our website.

Before Venkat guides us through the financial results, I would like to provide a brief overview of significant updates and key highlights for this quarter. It brings me great pleasure to announce that we have achieved another profitable quarter, underlying a consistent growth strategy. In Q3 FY24, our order book exhibited a year-on-year growth of 8%, reaching INR9.6 billion. The order inflow for the quarter amounted to INR9.9 billion.

The company has strategically aligned itself to leverage favorable industry conditions, particularly in the anticipated tailwinds from government policies, driving a 15% CAGR in India's defense production. Projections further suggest that the defense outlay in India is expected to grow at a CAGR of 12%, reaching $147 billion over FY25-29 period. Our organization is well-positioned to capitalize on this growth, aligning with a broader government strategy aimed at advancing the aerospace and defense industries.

This anticipated growth is backed by initiatives such as Atmanirbhar Bharat, Positive Intergenerationalist, and the Defense Modernization Plan, a robust order pipeline for the Indian defense industry. These strategic measures are poised to contribute significantly to our company's success in the evolving landscape of the defense sector.

In Q3 FY24, we secured the following significant orders, including two avionics development orders received worth INR439 million and INR101 million from DRDO and Department of Space, respectively. One avionics production order was received from DRDO worth 167 million. Two EW production orders were received from BEL and DRDO worth INR42 million and INR43 million, respectively. One naval production order and one AT production order was received from BEL and BDL, respectively. These orders were worth INR42 million and INR22 million each. Moving on to a brief financial overview, in Q3 FY24, our operational revenue surged 25% year-on-year, reaching INR139.5 crores. Over the span of nine months, we experienced a substantial 26% year-on-year growth. Sustaining strong performance, gross profit margins maintained a robust 68% and 66% year-on-year and in Q3, year-on-year in Q3 and nine-month FY24, respectively.

EBITDA demonstrated notable increase of 38% year-on-year in Q3. In nine-month FY24, EBITDA achieved an impressive growth of 31%. Keeping the secular tailwinds in mind, we outlined our strategic priorities for the next two years.

Capitalizing on promising opportunities in radar, electronic warfare and satellite markets. Data expansion in the export markets were actively pursuing various prospects in collaboration with domestic competitors. Active participation in contracts worth INR20 billion to INR30 billion over the next three to four years.

At this point, I will pass the floor to Venkat for his comments.

Venkata Subramanian: Thank you, sir, and good morning, ladies and gentlemen. We are delighted to report outstanding performance in Q3 and nine-month FY24. Let me provide an overview of the financial results.

In nine-month FY24, revenue from operations experienced a substantial 26% year-on-year surge, reaching to 3,375 million. Nine-month gross margin stood at 66%, supported by a robust revenue mix.

Development contracts contributed to 40% of the revenue mix. Production accounted for 55% and service demonstrated a growth of 5%, showcasing progress across all three categories. EBITDA demonstrated a strong growth of 31% year-on-year, reaching to INR1,286 million, with an EBITDA margin of 38%. Profit before tax reached INR1,468 million, while profit after tax witnessed a significant 61% year-on-year increase to INR1,106 million. In Q3 FY24, revenues displayed a year-on-year increase of 25%, totaling to INR1,395 million.

Development contracts contributed to 26%, production contracts contributed to 69%, highlighting the diverse revenue streams. Service contracts contributed to approximately 5% in Q3, emphasizing our comprehensive offerings. Robust gross margins were effectively maintained at 68%.

Profit before tax stood at INR657 million. Profit after tax experienced an impressive 53% growth, reaching INR510 million. Our balance sheet remains debt-free, reflecting prudent financial management. Operational efficiency remains our key factor, targeting a working capital cycle of approximately 240 days to 270 days within the next couple of years.

At the end of January 2024, we hold over INR690 crores in cash and cash equivalents, signifying our strong financial stability and liquidity. Overall Q3 and 9-month FY24 showcased a robust performance, instilling confidence in a steady growth momentum for the upcoming year.

With this, we will now proceed to 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 Renu Baid-Pugalia from IIFL Securities. Please go ahead.

Renu Baid Pugalia: Hi, good morning team. My first question would be, you have to understand a bit more. I think operationally while we have done pretty well, order and flows have been a bit concerning. It's been 9 months and numbers are quite weak.

So can you share inputs in terms of where do you think we may land up the year fiscal '24 in terms of order flow, especially update on Arudra and Himshakti which have been now delayed for more than 18 months? And overall, how is the order pipeline looking for fiscal '24 and '25? That's the first question.

S. Rangarajan: Yes. Thank you, Renu. There has been a delay in whatever we expected contracts because contracts to Bell and several other organizations got delayed, back to back there has been a delay. Though they have received orders, we are now working with them to see when the contracts will happen. The dialogue is on. Discussions and negotiations are on with various participants.

And we expect in the next two to three months, some contracts, a few hundred crores to come. And probably by the first quarter of '24-'25, we expect another few hundred crores contract.

These are all single vendor orders. And like we said earlier, I think INR500 crores, INR600 crores of additional contract is expected in the next four to six months' time, which we will execute. On top of that, based on contracts we were executing last year, repeat contracts are also expected.

Only the timeline is a bit hazy now. But as and when the trials are happening, we will get clarity during the first quarter of '24 what kind of contracts we are getting. On the other hand, we are also participating in competitive bids. So we will have some clarity probably in the next two to three months. We should be able to give you a clear picture probably during the results announcement after this year.

Renu Baid Pugalia: Right. On the competitive bids, would the election code of conduct be applicable, say for example, if elections are announced in early March, would that impact the finalization of competitive bid orders to post elections or do you think they will go ahead irrespective of the model code of conduct?

S. Rangarajan: No, no. This has got nothing to do with the government code of conduct. These are all funded programs in the department, various kinds of departments, so that the processing will continue. It's got nothing to do with what is happening in the elections.

Renu Baid Pugalia: Right. And since you mentioned that almost 5 billion to 6 billion worth of orders should be coming in the next two quarters or so, would that also imply that for the current year, which is just two months to close, we may actually be short of last year's level of INR900 crores, which directly or indirectly will also have an implication on the execution which is pegged for fiscal 2025?

S. Rangarajan: I think we should be around the same range by year end because we are expecting a few hundred crores orders. Already we have about INR1,000-odd crores now and whatever is to be executed, we require to keep the last year order book status similar. We require over a couple of INR100 crores, which already quotations are gone and the orders will probably exceed that. So we will be marginally more than last year order book starting April 1st is what we believe. If gets finalized as we expect them to be, because they are an accusation now.

Renu Baid Pugalia: So order backlog is expected to be more or order inflows is expected to be more?

S. Rangarajan: As of April this year, the order backlog or you know, orders on hand position will be slightly more than last year is what we believe.

Renu Baid Pugalia: Got it. Sure. So secondly, in terms of, can you share updates in terms of how is the developmental order for the surveillance radar going on? And are we on track with respect to building these projects in the next fiscal year?

S. Rangarajan: Yes, that is on track. On track being what there is delay, but that is to be expected because it is a very complex kind of product. But all the designs have been completed. So now it is in the fabrication and testing stage. So we are okay on that. I think next year we should deliver these systems.

Renu Baid Pugalia: And one of the systems will be delivered or both will be completed?

S. Rangarajan: We would like to complete both. It all depends on subcontractor timelines. As far as electronics is concerned, we have been controlled. We are very much in place and all the designs are completed. So the testing has already started. So we will be in line. It all depends on how the subcontractor really delivers. But I think we should be in line is what I expect.

Renu Baid Pugalia: Got it. And lastly, if you look at the disclosures, there does not seem to be much usage of funds from the QIP proceeds for MEC-2 programs. So can you share updates? Where are we in terms of stepping up investments for these long-lead MEC-2 programs in terms of technology development? And any potential updates on technology tie-ups with JVs with foreign OEMs on this?

S. Rangarajan: Okay. See, the QIP funds is not necessarily only for MEC-2 programs. We have participated in one MEC-2 and one MEC-1 and one MEC-2. MEC-2 is actually at one stage of design and development. While the expenses are not reflected in the QIP funds, this is because we are doing more development now. Development is coming to a completion and some of the component order has happened.

We also wanted to get clarity on how do you account this development properly with respect to QIP funds. The discussion is on with our auditor. That has got finalized now. So whatever design development we booked on our own name will get transferred to that account as and when this clarity is emerging. So we are already on in that. And second is any kind of large development of this nature, where product is very, very complex, goes through many trials.

Its initial kick-in in terms of expense will be limited to only design. And then when the prototypes are getting built and certifications happen and trials happen, the cost build-up really happens. So it's a longer term kind of a play. That is why we wanted to get financial closure because we didn't want to have only one-off development. So we took a chunk of money to put it into various kinds of development programs. We already started deploying it.

The design is started. Deployment is smaller. It will pick up during the course of coming year. Also, once based on the development, we also have put some capital infrastructure for manufacturing post-delivery. We need to get that infrastructure done so that we can address the expected order book. All this will happen in the next two years.

Renu Baid Pugalia: Got it. Got it. Thanks much and all the best, sir.

Moderator: Thank you very much. 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, and congratulations on a good set of numbers. Sir, my first question is on your robust revenue mix that you mentioned. Sir, is it right for us to assume that contracts or the revenue that you receive from MOD have a slightly better margin compared to, say, other competitors?

S. Rangarajan: See, MOD business is typically a competitive business. So we can't say we get better margins or lower margin. If at all it happens. But either which way, none of these buildings we've done this year, except we have a few things which we got out of a few years back, we delivered on that. But the contracts we're talking on hand and all that is not the MOD direct contract. These are all DRDO contracts, Department of Space contracts, and as well as contracts from various PSUs like BEL and HAL, etcetera.

We don't have a direct contract. Today we started quoting. We've got to make two programs which we're developing against MOD, a tender. Similarly, a tender has been released for larger radar where we're participating. We have only participated in the radar now only. So the MOD tenders will start over a period of time. As of now, the dependence is on DRDO-driven programs and the follow-on orders from DPSU is what we're executing.

Transition, the MOD tenders is in the phase and interest to take a kick-start over the next few years' time.

Dipen Vakil: Got it, sir. So my next question is, sir, this time we have booked some strong revenues coming in from BrahMos. So is there any update on the C-curve and what was it? Can you throw some light more on the revenue from BrahMos?

S. Rangarajan: Revenue from BrahMos, we have a little bit of order left from whatever earlier order which is planned to be executed either this quarter or next quarter, depending on their – we are ready depending on acceptance, whether it will get billed this quarter or next quarter, we're not very sure. And as regards the C-curve, we're still awaiting the final trials of the C-curve. It is not in our hands.

The products are with DRDO. We have to conduct the C-curve trials and that is somehow got postponed. We are not aware why it's getting postponed. But as and when that gets done, it's expected that the contracts should happen after successful trials. And it is important because India wants to do more in India. So, and we're also very much more cost-effective rather than imported C-curves.

We expect that that should kick in. But I'm not able to answer this question because the trials have to get completed. That is where we are not positioned, place the future contract. We have not planned anything as of now. But what we hear from informed sources is that it's very much under consideration and things should happen fast. Got it.

On top of that, there is also some orders expected, additional orders, which are expecting from the services, MOD. Back to back, they are also saying we should also get some more orders. The details are not available. But in the next few months, we'll know what orders are happening.

Dipen Vakil: Got it, sir. So, my last question is on the lines of, sir, we have currently our order book is close to around INR1000 crores. So, within this order book, are there any slow-moving orders which have been sitting in our order book for quite some time and execution is slow, do you think, for things not in our hands?

S. Rangarajan: No, no. All these orders, we got an order for the radar contracts about a year back. We will probably be executing another this year. This coming financial year, we should be able to execute it. So, all our two, three-year kind of deliverables. So, there's nothing what we keep, no orders is not there. These are all, most of it will get executed.

And also, we're expecting more orders this year, this quarter and next quarter. We're expecting even some of those orders which we expect this quarter and next quarter, the order is about to be executed next year, '24-'25. We expect that also to be executed next year. We are preparing ourselves for this kind of contract. As soon as it happens, how do we execute quickly?

So, in parallel, we are putting in the infrastructure to see that the execution happens.

Dipen Vakil: Got it, sir. So, thank you for your commentary on the order book and order inflow. We hope Data Patterns receive some great orders in the coming future. Thank you so much.

S. Rangarajan: Thank you.

Moderator: Thank you very much. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Yes, sir. Can you talk about your working capital target for coming years, working capital days?

Venkata Subramanian: We are targeting the working capital cycle to be around 240 to 270 days over the next couple of years. It's coming down now because inventory cycles are expected to come down because we have been keeping some higher inventory due to the COVID pandemic related supply chain issues. Those things are not going to be there.

And our revenue on a quarter-on-quarter also is now reasonably easing out. Considering all that, we expect the working capital cycle to come down to 240 to 270 days over the next couple of years. Okay.

Sumant Kumar: Now, talking about the order inflow as per the PPT, nine months for '23, we have 6,800. And this year, nine months, we have 3,700 plus. And also, development mix has reduced. So, can you comment on the momentum of order inflow going forward and also the development side mix is lower? So, what we can conclude from here?

S. Rangarajan: There are a number of programs we are working on where the contract, there are two things. Order expected is coming based on earlier delivered contracts and production order coming to PSUs and back-to-back orders coming to us. There are two programs which Renu was saying to stop in this, Arudhra and Dharashakti.

This is under discussion. So, some contracts should happen is what we believe. There are other than that, some more new programs being initiated by DRDO on a high, a fast delivery basis. We are also expanding those contracts. Some of them are single vendor contracts which we will get in probably next five, six months' time. So, I think the order position will start growing this quarter to next quarter.

It will start growing. And whatever predictions we are giving you is all based on single vendor contracts because we can't predict what will happen on a competitive bid. So, whatever we are predicting, growth is all on single vendor. If the competitive bid happens, that will be extra to whatever we are predicting.

This is one portion. Second also, we are trying to look at outside India requirements and some inquiries have come from UK which is again based on whatever we delivered earlier. Those things also should kick in. So, and we are also looking outside India for development work to US organizations. So, I think we are trying to look at broad basing our order book.

One is DRDO, PSU, MOD. Third is also looking at exports. If we exceed exports now, in three to four years, we will start bringing reasonable amount of exports. So, that also work is starting.

Sumant Kumar: Now, talking about the export and global opportunity, currently we are in UK. Are we exploring and any other countries and any information?

S. Rangarajan: We have contracts from Europe, from UK and Europe. We also have contracts from Korea which we are executing probably this year. The UK contracts will be two or three years deliverable. So, we are delivering every month systems to them as per the requirement. The other two countries we are talking about is to be executed as a project which will be probably coming here. That is the next financial year we will execute it.

These contracts to export, I think we need to work on it. We need to look at our competencies and see how we can build based on specifications kind of equipment. Normally, what happens is those companies, countries, give bit tools, print. There is a volume turnover. Though we have a manufacturing infrastructure which is in line with international systems, our preference is to do value-added exports. So, we want to see them.

So, that we have started as an initiative now and we are going to do this. The third important thing which we have taken clearly money, we have not talked about at all. There is a lot of work that is being put into development. We have increased the scale of people. We have more than 700 engineers in data partners. In the last one year, I think more than 30% increase in our staff is also there.

So, we are actually putting infrastructure in terms of capability, people, training, all of those things so that we can scale the business in the next five years' time frame. So, inspecting these contracts, speed the development. Let the contracts happen. Also, see the execution happens spotlessly. A lot of work is happening actually.

Sumant Kumar: Thank you so much, sir.

Moderator: Thank you very much. The next question is from the line of Gagan Thareja from ASK Investment Manager. Please go ahead.

Gagan Thareja: Okay. So, the first question is that given your current order book position or the order book position that you expect to close the year with, would it be possible to maintain the 25% top line growth that we have seen thus far and that you have been guiding for over the next two years? Because I think year on year the order book that you will end FY24 will not be 25% up from last year's number.

S. Rangarajan: Like I said, we expected to close the orders in the next two quarters. But also, what we delivered last year on trials, repeat orders are also expected as we go along. The trend is maintained, whatever we told you, 25% top line growth. We expect that to maintain for the next two years. There are a lot of simulated orders which we are expecting. So, that should also take care of the requirements.

As of now, the guidance remains. In the course of next year, if there is an issue in terms of order intake, we will always inform you. But as of now, I think this is happening. And we also expect some contribution from the 3D funds where we put in product development effort. Some of them, after we demonstrate, we expect some contracts picking for those programs. And this will also help in seeing that the next year order book will be able to deliver our expectations.

Gagan Thareja: Cumulatively, your order pipeline looks in numbers. If you could enumerate, what could be the size of the order pipeline that you have available for FY '25? I understand first quarter you're indicating next year could be INR300 crores.

Fourth quarter this year could be INR200 crores of intake. But thereafter, in the next three quarters for the following financial year of FY '25, what order pipeline would you have? And would you be able to maintain INR300 crores, whatever the rate in order intake, after post 1Q of next year?

S. Rangarajan: I think we will comment on the order intake next year. Probably we will get the call that is post this year. We'll have more clarity. I don't want to give vague numbers today. We have indicative numbers. And we will probably give you in the next four to five months, we will give much more clarity on contracts. But what I can say is, based on the requirements coming up, I think INR600 crores to INR800 crores of additional orders is going to come. It will take care of our next two years of delivery. And some of them will be executed itself.

Susheel Aggarwal: On top of which, we are also busy.

Gagan Thareja: We are not audible, sir. I'm sorry. I was not able to hear you very clearly when you made the last statement. Could you just repeat it? My apologies. I couldn't hear you very clearly.

S. Rangarajan: First, I would like to give a proper forecast, probably another three, four months down the line, not presently. We're working on some new contracts, revisions and all. But we expect some, at least INR600 crores to INR800 crores of orders happening in the next two quarters, which will go.

And also some additional orders are based on what we delivered earlier. We expect some repeat orders to happen. And a few new programs are kicked in, where we also started making proposals.

And if this were to happen on an urgent basis, where things have happened in one year, we are well positioned to deliver those products. So we have much more clarity after about four, five months.

Gagan Thareja: We'll let you know. And the BrahMos orders, whenever they come through after the trials, what could be, you know, the size and tenure? If you could give us some, you know, broad brush idea of that, it would be helpful.

Because I presume BrahMos has very sizable missile orders running into almost INR30,000 crores worth of BrahMos orders, plus the newer generation BrahMos missiles are also in the pipeline. So seekers would be a continuous requirement, if you could give us some idea of what's the size of work that's possible there.

S. Rangarajan: They have not given us any indicative numbers for me to pass it on to you. So I think it's a bit premature. Let the BrahMos, flight test get over. Let them give an inquiry and then we'll know what kind of timeframes they're looking at. I can only tell you one thing, though the government of India or BrahMos thinks that, you know, our ramping up manufacturing will take time. As against what is thought, we will ramp up manufacturing very quickly.

We have a phenomenal infrastructure created and our delivery mechanisms are very, very good. So we probably, if contracts come, we will deliver ahead, is what we believe, as long as the customer is willing to accept it. So we have to wait and watch what really happens. BrahMos engine is still not flown. So we don't want to comment on these things at the present moment. We don't have much data. We have some kind of news, but we don't have validated information for all of this.

Gagan Thareja: Right. And the QIP fund usage, if you could give us, some idea of the timeline of, how those funds will be used and what time will they be exhausted? And secondly, what will be the capex program for next year?

S. Rangarajan: We thought that we will spend this over the two to three years' time in the QAB. We just started the development work a few months back. The first initial is get on to the benchmark specification document, get it identified, and put the project positioning, the people in place, which is what happened.

After development started in two programs, two or three programs, four programs have started, active design and contract ordering and all have started. So we have to do a few more programs. And that's because we are trying to allocate the money and the time of people to things which can happen faster, and the contracts can happen faster and based on need in the market.

So we are pushing like this, but I think two to three years is what we have kept in mind. And now that the cash collection is fairly good, we can also look at opportunities which comes our way for some acquisition mergers also we can consider over the next one to two years' time, because we have cash on hand and we are generating cash. So we are also looking at this kind of growth also as we go along.

But presently, no decision is taken internally by the board or us to see how to do this, but we are open to all these things as we go along.

Gagan Thareja: And the capex next year could be?

S. Rangarajan: Pardon?

Gagan Thareja: What could be the capital…

S. Rangarajan: I can't hear you. I can't hear you at all. If you talk a bit loudly.

Gagan Thareja: Yes, just asking what could be the capital expenditure plan for or budget for this year and the following year?

S. Rangarajan: Following year, we have planned to spend about INR100-plus crores on capex. The timing of the capex will be announced next quarter, because we are doing the budgeting exercise now. And based on what is necessary for each program, the program managers will tell what is necessary for infrastructure creation, for testing and manufacturing.

We are awaiting this actual internal design details to be completed before it will be formulated. But yes, we are looking at some INR100 crores of infrastructure creation.

Gagan Thareja: Right. And while you indicate that over two years you intend to bring the working capital down to 240 to 270 days, what level does it stand today at?

Venkata Subramanian: It stands similar to our September quarter, which is around 300 odd days of net working capital days. We will, a couple of factors I told you initially in the call, like for example, inventory days is likely to come down because there is not going to be pressure because of the pandemic which we have had in the couple of previous years. And also now the production contract executions are increasing and with the result collection cycles are going to come down. So, all these things are expected to result in reduction in the working capital days over the next two years.

Gagan Thareja: Right. And so, in yesterday's budget, I think two or three interesting things came out. One is, I think funds for the Sukhoi upgrades were sort of approved if I understood it correctly. HAL has already been given AON for Sukhoi upgrades in CH orders and LUH orders. I presume there is substantial avionics work there that you are in a very competent position to undertake. Your assessment of, what the addressable opportunity could be for you in this area? And over what time frame can this materialize?

S. Rangarajan: The idea of going for QAB is to increase our total addressable market. And whatever the budget they talked about yesterday, these are all expected to happen. And only addressing these requirements, we have already started the product development activities. We want to increase our addressable market to be INR50 to INR20,000 crores. So, we are building products so that we can address this. There are two ways of doing it.

One is to collaborate with foreigners and do a work share and build here. We are actually doing largely our own design where IP creation is done in-house in India. And then building this kind of capability and products, which is world class. So, that development is on. And we are happy to listen to the finance minister that, the allocations have gone up and they are looking at upgrade allocations and things like that, which is in line with what our expectations are. And what we are working towards addressing those markets.

Also, the second thing, what is for, loan, interest-free loan kind of thing, loan interest for long-term or deployment to private sector for, sundries industries is also a very welcome thing. We didn't expect these things. But the government is doing the right thing to build more value creation within the country. And more R&D can be done in the country. It's very good. Though, we ourselves have, we've taken the QAB and we are generating cash. We're not looking at any kind of loan at the present moment. But this for the industry is very good.

Gagan Thareja: And, sir, semiconductor testing is also being incentivized in India under the PLI scheme. Is it an area of interest for you? I think there's lots of movement on the electronic manufacturing space. Would it be of interest to you to look at those opportunities?

S. Rangarajan: I'll tell you, we do all of electronics. We build our own test systems. That's why the company started with building ATEs and automated test equipment. We have a fair amount of competency in all these areas. Electronics goes from nano-volt, micro-volt to, microwave and high voltage up to 40 KV. We do all of them in-house.

But what happens though is even like the code, embedded code, any OS, without OS, we write code. Competencies exist. In any area of business, you need to have a domain familiarity. Okay. And that makes a difference between capability and product. The transition based on domain. So, you say, I see testing and all that. Yes, we have a competency. But that's not a focus point in our company.

Today, our focus is a very large, very, very large, market in India on the defense. It's actually untouched. We're used to importing all of those systems in India. What we need to do is bring the capability, add more capability in the domain, and build product competency to build complete products and get it validated new field. That is going to be the challenge. But if we can do that, then we access markets.

We have access to markets that are very, very large. And though, one more thing that has happened is, though people never, the foreigners never took it seriously, they thought, it's just a whole new bottle. We continue to import. Those are little bit is happening like that. I think people are getting to understand that, our government is serious to do more in India. So, the last two weeks, itself we've had large, very, very large multinationals visiting us and saying, okay, what can we do together? The joint design is possible. But India doesn't have capability. Only that I can take from them and design around that.

So these things are opening up an enormous amount of product competencies can come. And with the money, access to money which we have in the bank, and there's a direct need of such requirements, we're also thinking very much as to how to do this, because there is overlap competencies for these kind of programs which to be address. So, very interesting time, actually.

So this is not the time for us to really focus on some other program, trying to get new domain, getting to things which is going to take time. Though the PLI and things like is there, I think we should not, infrastructure and capability built in, I think we should not refocus that in other areas of energy. So we are really focused on this development in defense and aerospace. And that's a huge opportunity coming our way.

The second is build an export market in the next three to four years' time to see that we are not only government-centric business is not being done, and we're looking at commercial markets outside India. It gives you regular revenue on a month-on-month revenue. Annuity business is there, which is fixed for five years, ten years, so bring stability into the company. Today we are all in project mode contracts, which also gives instability or lumpiness.

We need to change over from, though we don't want to let go of this because the competency model exists to address the market, we also have to even out the whole thing into annuity business and monthly business. With not just the production business, which is low-value addition, but a higher-value addition kind of business, which is possible outside India. So our focus is somewhere there. I'm trying to see how do I address this market. So we're trying to put manpower, infrastructure, and start marketing in those areas.

Gagan Thareja: Finally, sir, could you flesh out the succession planning steps that the board and the company would have taken? You've alluded to this in the past, that you intend to flesh out the plan. If anything further has subsequently been done, could you inform us on that?

S. Rangarajan: Yes, this is a major initiative and one of the major requirements of the board is that we work on a succession planning system and put a timebomb to see that it is in place. So the first thing we got is strengthening our HR team. We got a head of HR, which is a very senior guy, who worked out of Infosys. He joined us one year back, about nine to ten months back. And he's been tasked to building his own team to see that we create whatever bandwidth necessary, and also knowledge-based necessary, to initiate the succession plan process.

Matter of fact, three years back, we had the NRC, a whole day NRC, on what we've done on succession planning with HR. We've done an excellent job. So we've started identifying the skill matrix, what is necessary, the gap in skills, various levels of management and junior level, where the interventions are necessary, where training is necessary, where inclusion is possible assessment and then you talked about a whole lot of stuff, a lot of activity, by bringing external consultants.

And also, where are the areas where homegrown culture clashes are there, and what do you want to do from bringing external people into the picture? So a lot of discussion has taken place, and timelines have been set by the board to see how to take this forward. So we are very actively pursuing succession planning at various levels.

At my level, we've already involved the COO to join the board last year, and his operation is actually the company being managed by him today, with his team of engineers and managers. So we are on the job. We understand the seriousness of this, especially since the company is growing rapidly, and we're going to look at five years from now, our targets are going to be very, very different from what we set ourselves today.

And that, a lot of money has been spent on product development. We need to see that the company is well-rounded and can not only look at the expansion, but also deliver on time-quality products and scale the company. So this is a very serious aspect, and we've given adequate importance to this. And we are on the job.

Gagan Thareja: Thanks, sir. Wish you all the best. I'll get back in the queue.

Moderator: Thank you very much. The next question is from the line of Farokh Pandole from Avestha Fund Management. Please go ahead.

Farokh Pandole: Good morning. Congratulations on the good set of numbers. I just wanted to ask, I had more sort of a general question regarding two aspects that you touched upon through the call. One is on exports. I mean, typically, what is our entry strategy into markets? Which are the markets we are looking at? Typical markets that we will be looking at going forward is the composition of work that we are doing pretty similar to what we do in India.

And also, you mentioned about inorganic opportunities. And, if you had a wish list of broad contours of what an [IDE] sort of acquisition target would look like, what would that be? And also, sorry, I missed earlier when you mentioned, what is the cash amount on the books as of the end of the quarter?

S. Rangarajan: Okay. That is what I hope we will do. On the cash, I think Venkat just said about INR690 crores of cash equivalents as of today, as of January 31st.

Farokh Pandole: INR690 crores?

S. Rangarajan: Yes. That's right. So, that's one. Second is, as far as inorganic wish list, I don't think I should comment at this present moment. This is under deliberation within the office and our board. We will have to do this strategic thinking within the organization. Come out of the list and put some small group of people in charge to take on this. This is discussed in the board and we need to do some homework before we come to that list.

So, I have something in my mind, but I don't, I think it's a bit premature to talk about it on the call. We'll come to it at an appropriate time. As far as the exports are concerned, there can be two exports, two kinds of things, defense as well as non-defense. Defense can happen provided we build complete solutions here as it's deployed in India, same as exportable outside.

So, towards that, whatever products we are now putting in QAP and whatever development we're doing, we're trying to see the end system is done, designed by us. What has happened all along is when we work with DRDO, we do part of a system. And that part of the system is not exportable directly to any kind of country.

Let's say, we don't have the software, we don't have necessary other parts of the entire system. So, the direction is to try to build full systems, which is exportable, which is what we're trying to do now. And this is on our own, we're trying to build systems.

We have orders both from South Korea and from Europe for complete system of radars, which has been designed earlier by us. We need to put in some gaps. And then we want some contracts and open tenders. And these are going to be exported. But more importantly, there is going to be a lot of work just be done to build complete systems.

All the make tools and other things, which we're now trying to put even against QAP funds we're developing. Once that matures into full product and field testing, the same will be exported outside India. So, this is one aspect. We need this. It's WIP. We need to go ahead and keep doing it.

The second is non-defense. Again, we don't want to do low, we want to do critical systems. Because defense systems like that, where safety critical and advanced technologies are used is what we're trying to focus on. Because then, the development cycle, the focus on how do you design, how do you produce, those kind of things you learn, then can be reused in those areas.

So, again, we're trying to address those markets, but in civilian requirements, non-defense requirements. So, I can only talk about it now at this present point like this. I don't have a contract for this. We just started making inroads, making proposals, and seeing that we get our feet wet initially.

And once we do that, this will be a slow process, but can accelerate into very large businesses, probably we'll get the first spins. So, since we have the funds now, I think we can invest in these things for future growth. So, towards that, efforts are being taken.

Farokh Pandole: Great. Thanks, and wish you all the best.

Moderator: Thank you very much. The next question is from the line of Susheel Aggarwal from NPCC Investment. Please go ahead.

Susheel Aggarwal: Hello. Am I audible?

Moderator: Yes, sir.

Susheel Aggarwal: Yes. Firstly, congratulations for very good numbers. I want to check one thing that this Dornier and LCA helicopter orders have been awarded to HAL and other companies. So, do we get inquiries from them for avionics and electronics from them?

S. Rangarajan: Presently, we are doing Dornier upgrade for Navy. Originally, the idea was to import the sensors, but DRDO intervened and said they can deliver it quite quickly in one year. So, the import has stopped, and maybe it's an opportunity for DRDO and the industry to participate and see that we can deliver.

Back to back, DRDO has given us an order of two areas. One is in radars, and the other is in electronic warfare, ESM. And we got the contract February, April, nine, ten months back. We are in schedule. The product has been delivered in the first units. The other units are under testing.

So, I think it will go in the next few months, two months, or whatever it is in flight testing. So, there is some portion we are doing. Back to back, once flight tests are over, whatever upgrade program we expect from back to back contracts, provided, of course, it meets Navy's requirements, which, of course, DRDO is ensuring it's going to meet.

We are doing our end of the job to see that it meets the requirements and specifications. And regarding LCA, we already have some parts of it already there from 2005. We have some cockpit displays flying. We have an order from a chair for this. It is under delivery. So, we're doing that.

Similarly, mission systems for LCA. We replaced all the imported systems, and we have orders for that. And also, we're executing. This year, I think, we'll finish. Whatever orders are there, we'll finish that by March is what we expect. The new more orders will come next year.

We'll do it in March. So, and then we have the radar warning receiver we have delivered. We have some contracts for LCA Mark-1A that is being delivered. And I expect the flight performance of what has been flying in LCA is very, very good. The customer is quite happy. So, if all this works out fine, maybe there will be additional orders coming for the larger Mark-1A program.

But at this present moment, we're not putting this part of our -- we're not projecting it because it has to go to trial, and the Air Force has to make a decision on how it's going to happen. All the integrated systems, sensors are going to be integrated into LCA. They'll take a formal approach of what to do. But we have something going there, and hopefully, we should get more orders as we go along.

Susheel Aggarwal: Because my point was, recently, about two months back, Ministry of Defense has placed a large amount of orders for this LCA with HAL. So, will we have to participate in competitive tender for them, or based on our development, we'll be getting those orders?

S. Rangarajan: Well, I don't know which order you're talking about. I think the announcement is that more LCA Mark-1As will be procured. More of an announcement, rather than a contract. I think, as I understand, because, see, obviously, I don't have the contract. HAL has a contract. You should ask HAL this on one of your calls.

They'll probably give you more data. But as I understood, in 83 aircrafts, contract is made with HAL. New orders, I think they're expecting, but I don't think any tender will also come. I may be wrong, but this is my understanding.

Susheel Aggarwal: Okay. The other thing about disclosures, I just wanted to say that orders, whatever orders we get during the quarter, we also announce them because, like other companies in this field are also announcing. So, it gives more clarity.

S. Rangarajan: I didn't understand your question. Can you come again, a bit louder, please? I didn't understand the question.

Susheel Aggarwal: I was telling that whatever orders we get during the quarter, if it is informed to the market, like other companies are also doing.

S. Rangarajan: Okay. But we are actually thinking that maybe end of quarter, anyway, after Board meeting, it is announced as one shot. One or two have been announced like that. I don't know if that is a mass requirement. We can also do that. But we're not thinking of doing that.

The order keeps coming every week, you know, two weeks, something or other keeps coming. And we don't want to make unnecessary announcement in this exchange. It's what we're thinking. I don't know. If all of you think that is essential, then we'll take a call, internally talk and discuss what is to be done.

Venkata Subramanian: And in the earnings presentation, major orders received is given as a list.

Susheel Aggarwal: Yes, in the presentation, it is given, right. But there is a three-month gap. So, for investors -- all the companies in the same field and other fields, they are announcing periodically whenever they are getting orders.

Venkata Subramanian: We will look into it and if it is required, then we will also try and do that.

Susheel Aggarwal: Okay, best of luck for the future. We hope all the best.

Moderator: Thank you very much. The next question is from the line of CA Garvit Goyal from Nvest Analytics. Please go ahead.

CA Garvit Goyal: Hi, am I audible?

Moderator: Yes, sir.

CA Garvit Goyal: Good morning, sir. Congrats for a good set of numbers. My question is on the QIP utilization. So we have started utilizing the QIP for newer products. So, as far as I understand, we are investing for extended versions of the existing products only. So, for example, let's say we have three products, product one, two and three.

So, currently, what we are focusing is developing one product, one point two, two point two and three point two. That is the newer products under the existing category. But considering a lot of technology focus of the defense industry and the changing army requirements in the future, are we also focused on developing the completely newer products for the R product market like product number four, five, six and so on? So, that is my first question.

S. Rangarajan: Okay. We are not doing incremental design on old products. We are not doing an upgrade on old products. We are doing whatever you want me to do. Doing four, five, six. That is what we are doing.

See, what happens is competencies, technologies being common, building blocks being common, it is redesigned to build a completely different product. A different animal with enormous capabilities, really world class. We are building world class systems.

We are not doing incremental design changes. That is why a fair amount of money is taken to the market. And this is going to complete qualifications, etcetera. So, new products are being done for all three services.

CA Garvit Goyal: I was asking from the technology point of view like we are having one technology, right? So, are we also focusing on bringing up the newer technology so that we can further expand our portfolio?

S. Rangarajan: See, as a design center, we continuously work with contemporary technologies. So, whatever products we are designing today will be world class in terms of technology, component, design, everything will be world class. It will be contemporary technology.

It is not the old technology being put in a new bottle. No.

CA Garvit Goyal: And sir, are we still on the guidance of 25% growth in revenues and 30% growth in bottom line?

Venkata Subramanian: As of this year, yes. No, our guidance is 20-25%. It is not 25%. We have given a top line growth guidance of 20-25% which we are largely on target. And as regards bottom line…

CA Garvit Goyal: It was 25%, sir. In the earlier cone calls, it was 25%, sir.

S. Rangarajan: Okay, whatever. We are in line with that. I do not think there is any drastic change.

We have a lot of orders you can execute. It depends on what mix is going to get done in the next two months based on customer requirements and how they want to really pick up the contracts. We are in line with guidance.

CA Garvit Goyal: Understood. And lastly, on the export side, we are iterating that the big export orders are expected. So can you put some more color like the timelines by which we are going to expect them?

S. Rangarajan: No, no. I never said we are expecting big exports. I do not think I have been -- it is a miscommunication that has happened. We are very small in exports today. We have an order book of probably, I do not know, INR80 crores, INR90 crores, INR100 crores of export orders. Around that much we have export orders. Which probably will export most of it can get executed next year. But that is in our mind is not very large.

So what we are saying is we are going to speed exports to ensure that that can be a substantial kind of business four, five years down the line. So that is what we need to do. Because the competence is being so heavy, I think we should address the global markets is what we believe. But the opportunities here are real. So we will focus our capacity to addressing these markets. See the export markets as they go along.

Because it takes enormous time to convert markets, get their acceptance, etcetera, in the export business in civil. So we will do that over a period of time is what I am saying.

CA Garvit Goyal: Understood. That is it from my side, sir. All the best for the future. Thank you.

Moderator: Thank you very much. As there are no further questions, I would now like to hand the conference over to management for closing comments.

S. Rangarajan: Thank you everybody for participating in this earnings call. The only one thing I would like to leave behind is we have been giving guidance and growing consistently as per guidance. The important thing is we have visibility because the order book was talked of quite a lot.

We expect some contracts to happen in the next two quarters, which will keep in line with whatever estimates we have been giving you in terms of guidance. But more importantly, when we went for QAB itself, we said that we need to scale the company. If we want to do 1000, 2000 floor scaling, we need to have addressable market.

And that means that we need to have products which can address the market. One other thing is to go to make two and tender programs and try to see win or lose a tender. But that is going to be not very predictable business.

So we said let us get into predictable business by building products ahead of requirement, knowing the requirement is there, and positioning the products so that we get that addressable market converted. This is the idea which we are doing on very deep tech development is what we are doing today. And we have increased our manpower, our infrastructure to do this.

The capex is going to come also to ensure that these products which we are designing now, there is a manufacturing infrastructure created in parallel. So all this we are doing in the next two years' time and the product development is online. So the main thing is we have not looked at our earlier days.

It is not a quarter-to-quarter kind of a business. Our business is more longer term, though we manage a reasonable quarter-to-quarter delivery today because of online order books. So the capability has been built up.

The focus is going to be on the next five years, what do you want to do? And the idea is to build a sizable business which is sustainable business on the next five years to 10 years' horizon. So we just started on the bottom of the curve now. We expect a lot more to happen as we go along. And that is what the company is working for.

Thank you very much. And if you have any further questions, kindly send it to Go India Advisors and we will answer them gladly. Thanks a lot to everybody for joining the call.

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