

Astra Microwave Products (ASTMIC)

CMP: ₹ 879

Target: ₹ 1060 (20%)

Target Period: 12 months

BUY

May 27, 2024

Riding on strong industry tailwinds...

About the stock: Astra Microwave Products (AMPL) is engaged in design, development and manufacture of sub-systems for Radio Frequency and microwave systems, primarily used in defence, space & meteorology

- Product range includes radars, missile electronics, electronic warfare, satellites, MMIC (Monolithic Microwave Integrated Circuit) and communication systems
- In FY24, ~58% of revenue was from defence, ~32% from exports (including deemed exports) and balance ~10% from space & others

Q4FY24/FY24 Performance: Revenue increased by 37% YoY (+53.2% QoQ) to Rs 354.0 crore. EBITDA margin expanded substantially by 954 bps YoY to Rs 22.8%. However, the margin was down by 583 bps QoQ. Subsequently, EBITDA was up 135.5% YoY (+22% QoQ) to Rs 80.7 crore. PAT stood at Rs 54.4 crore (vs Rs 13.5 crore in Q4FY24). For FY24, revenue is up 11.4% YoY to Rs 908.8 crore with EBITDA margin at 21.1% (vs 18.1% in FY23)

Investment Rationale:

- Strong domain expertise in key defence electronic systems:** With strong design & development and manufacturing capabilities (critical sub-systems/systems for various airborne, naval & ground based platforms), AMPL is strongly placed to capture a bigger pie of the growing electronics proportion in defence & space platforms. AMPL has moved up the value chain from manufacturing sub-systems/components to development & production of a wide range of high-end, high-value critical microwave and radio frequency application-based equipments like Gallium Nitride (GaN) Transmit/Receive Modules (TRMs), NavIC (Navigation with Indian Constellation) chips and other key radars & EW systems etc. We believe that this presents a huge opportunity for AMPL in the coming periods
- Healthy order-book & robust pipeline gives strong visibility; Increasing share of higher-margin domestic contracts to drive profitability:** Company's order book position stands healthy at ₹ 1956 crore (2x FY24 revenue). With strong tailwinds in defence & space sectors in terms of indigenising key systems/sub-systems, the orders inflows opportunity for AMPL is huge in both domestic and export markets. Management sees opportunity worth Rs 24000-25000 crore for the company over FY25-28E, primarily in defence & space electronics. Margins and profitability is expected to improve further led by execution of higher-margin domestic contracts

Rating and Target Price

- We believe AMPL is well placed to witness healthy growth led by strong sector tailwinds. We estimate revenue, EBITDA and PAT to grow at ~20%, ~25% and ~29% CAGR respectively over FY23-26E
- We recommend BUY on AMPL with target price of ₹ 1060 per share (based on 50x FY26E EPS)



Astra Microwave Products Limited

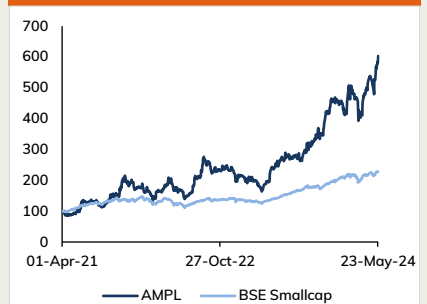
Particulars

Particular	Amount
Market Capitalisation (Rs Crore)	8,346
FY24 Gross Debt (Rs Crore)	238
FY24 Cash (Rs Crore)	131
EV (Rs Crore)	8,452
52 Week H/L (Rs)	912 / 320
Equity Capital	19.0
Face Value	2.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	6.5	6.5	6.5	6.5
FII	3.0	1.7	2.9	3.2
DII	9.9	15.3	14.8	13.6
Others	80.6	76.5	75.7	76.7

Price Chart



Key risks

- Dependent on govt contracts
- High working capital requirement
- Availability of key raw materials/components

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Key Financial Summary

(Rs crore)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
Revenues	641	750	816	909	12.3	1,088	1,304	19.8
EBITDA	77	89	148	192	35.4	240	298	24.7
EBITDA margin (%)	12.0	11.9	18.1	21.1		22.0	22.8	
Net Profit	29	38	70	121	61.3	157	201	28.7
EPS (Rs)	3.3	4.4	8.1	12.8		16.5	21.1	
P/E (x)	263.9	201.0	109.0	68.9		53.2	41.6	
EV/EBITDA (x)	109.0	93.5	57.0	44.1		35.5	28.6	
RoCE (%)	9.5	11.2	15.6	14.8		16.1	17.8	
RoE (%)	5.2	6.5	10.9	12.5		14.2	15.6	

Source: Company, ICICI Direct Research

Q4FY24 & FY24 Result Summary

- Revenue increased by 37% YoY (+53.2% QoQ) to Rs 354.0 crore in Q4FY24. For FY24, revenue is up 11.4% YoY to Rs 908.8 crore, largely in-line with our estimates. Execution has improved considerably in FY24 for domestic contracts
- EBITDA margin expanded substantially by 954 bps YoY to Rs 22.8%. However, the margin was down by 583 bps QoQ. Subsequently, EBITDA was up 135.5% YoY (+22% QoQ) to Rs 80.7 crore. For FY24, EBITDA margin stands at 21.1% (vs 18.1% in FY23) as the margin has improved significantly on YoY basis, primarily led by execution of higher-margin domestic contracts
- PAT stood at Rs 54.4 crore in Q4FY24 (vs Rs 13.5 crore in Q4FY24). For FY24, PAT is up 73.4% YoY to Rs 121.1 crore (which includes JV profit share of Rs 12 crore)

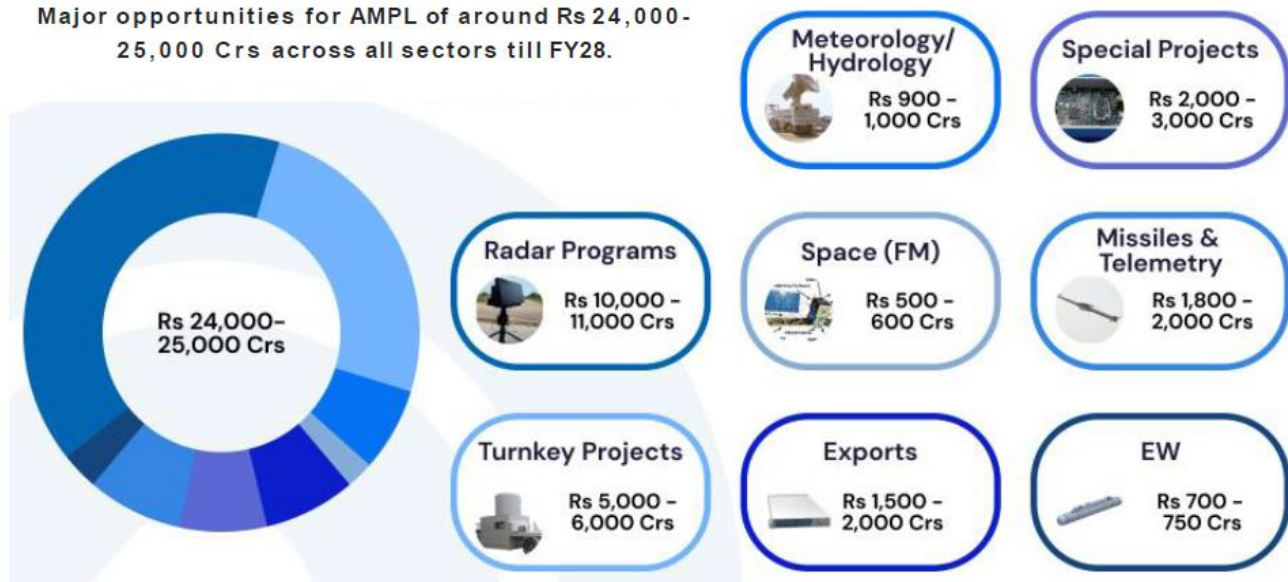
Earnings call highlights – Q4FY24 & FY24

- Standalone order backlog stands at ₹ 1956 crore as of March 2024 end (vs ₹ 1544 crore as of FY23 end). Order inflows stood at Rs 1516 crore in FY24 (vs Rs 800 crore in FY23)
- Domestic contracts contribute ~88% of order backlog while exports contribute balance ~12%
- Defence segment contribute ~77% of the domestic order backlog while space and meteorological segments contribute ~7% and ~4% of domestic backlog
- Company spent Rs 384 crore on R&D during FY24
- For FY25, company has guided order inflows worth Rs 1200-1300 crore and revenue of Rs 1000-1100 crore
- Management sees revenue growth of 18-22% YoY in the coming periods with gradual improvement in EBITDA margins
- Management highlight that, share of defence capital outlay is expected to reach ~37% of total defence budget by FY30 (vs ~26% in FY24). This translates into orders inflows of ~\$ 186 bn (~Rs 15.4 lakh crore) over FY24-30
- Management has outlined LEAP strategy for next leg of growth (apart from organic ~20% growth). In this strategy, company is focused on 1) new product developments & increasing IP base (through collaboration with defence PSUs, DRDO, start-ups, academic institutions etc), 2) expansion into new growth areas (like space components, sub-systems, satellites etc), 3) sustained growth in revenue with expansion in margins and working capital efficiency) and 4) expanding base of system integration based Hi-tech products for global markets
- Company's focus remains on timely delivery of products to customers and cost-competitiveness through capitalizing on IP created over the last 3 decades
- With the recent collaboration agreement signed with Teledyne e2v HiRel, company plans to scale up the MMIC (Monolithic microwave integrated circuit) capability and thus semiconductor services to support Aerospace, Defense, and High Reliability electronics markets
- Astra Rafael Comsys JV has turned profitable in FY24 with post tax profit of Rs 24 crore. The share of profit from this JV was ~Rs 12 crore during the year. The JV received orders worth ~Rs 386 crore in FY24 with order backlog stands at Rs 456 core. Order pipeline remains strong at Rs 900 crore for this JV

- Short-term debt increased to ~Rs 222 crore in FY24 (for working capital needs). Capex incurred during the year stood at ~Rs 40 crore
- Receivable days increased in FY24 as company is yet to book Rs 170-180 crore related to two major contracts which got delivered during the year
- Final configuration of GaN based radars (for Su-30 upgradation program) is yet to be shared by DRDO. However, EW (Electronic Warfare) tender has been floated by the govt and company is in process of evaluating the tender
- Limited series production order for AESA radar is expected in the next two quarters

Exhibit 1: Huge opportunity over the next 4 years

Major opportunities for AMPL of around Rs 24,000-25,000 Crs across all sectors till FY28.



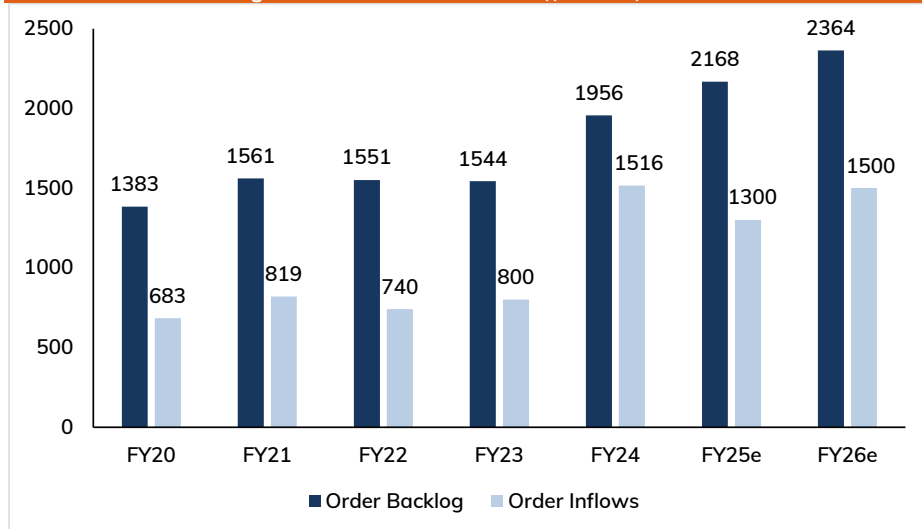
Source: Company, ICICI Direct Research

Exhibit 2: Q4FY24 result snapshot (₹ crore)

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Operating Income	354.0	258.4	37.0	231.0	53.2	Revenue came in-line with estimates, Execution improved significantly
Other income	2.7	1.0	182.0	3.6	-24.9	
Total Revenue	356.7	259.4	37.5	234.6	52.0	
Raw materials costs	219.0	179.3	22.2	121.8	79.8	
Employees Expense	36.1	27.5	31.3	30.7	17.4	
Other Expenses	18.2	17.4	4.1	12.4	47.0	
Total Expenditure	273.3	224.2	21.9	164.9	65.7	
EBITDA	80.7	34.3	135.5	66.1	22.0	
EBITDA margins (%)	22.8	13.3	954 bps	28.6	-583 bps	EBITDA margin improved substantially led by increase in contribution from high margin domestic orders
Interest	9.5	9.6		8.1		
Depreciation	6.4	6.3	2.3	6.6	-3.3	
Tax	16.9	4.4	280.9	14.1	19.5	
PAT	54.4	13.5	302.3	43.4	25.4	

Source: Company, ICICI Direct Research

Exhibit 3: Order backlog and order inflows trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Revenue	815.5	908.8	1,087.9	1,303.8
% Growth	8.7	11.4	19.7	19.8
Other income	5.5	11.7	13.1	14.7
Total Revenue	815.5	908.8	1,087.9	1,303.8
% Growth	8.7	11.4	19.7	19.8
Total Raw Material Costs	518.3	545.9	652.8	782.3
Employee Expenses	95.2	113.7	134.1	158.3
other expenses	54.4	57.6	61.4	65.4
Total Operating Expendit	667.9	717.2	848.3	1,005.9
Operating Profit (EBITDA)	147.6	191.6	239.7	297.8
% Growth	65.5	29.8	25.1	24.3
Interest	30.5	31.3	30.0	30.0
PBDT	122.6	172.0	222.7	282.5
Depreciation	23.7	25.0	29.3	32.9
PBT before Exceptional lte	98.9	147.0	193.5	249.7
Total Tax	26.1	37.9	50.3	64.9
PAT before MI	72.8	109.0	143.2	184.7
PAT	69.8	121.1	157.0	200.6
% Growth	84.4	73.4	29.7	27.8
EPS	8.1	12.8	16.5	21.1

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Profit after Tax	69.8	121.1	157.0	200.6
Depreciation	23.7	25.0	29.3	32.9
Interest	30.5	31.3	30.0	30.0
Cash Flow before WC changes	124.0	177.3	216.3	263.5
Changes in inventory	0.3	(95.5)	(81.6)	(82.5)
Changes in debtors	(78.6)	(221.5)	(91.0)	(118.3)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	28.4	(41.3)	(19.6)	(19.4)
Net Increase in Current Assets	(45.8)	(364.0)	(192.1)	(220.2)
Changes in creditors	(9.6)	38.0	17.5	20.1
Changes in provisions	0.6	(0.1)	2.5	1.3
Net Inc in Current Liabilities	(114.1)	57.3	40.1	45.6
Net CF from Operating activities	(35.9)	(129.3)	64.3	88.9
Changes in deferred tax assets	(2.1)	(2.0)	0.1	-
(Purchase)/Sale of Fixed Assets	(32.9)	(39.3)	(60.0)	(60.0)
Net CF from Investing activities	(2.5)	(74.0)	(64.2)	(63.2)
Dividend and Dividend Tax	(12.1)	(19.0)	(19.0)	(19.0)
Net CF from Financing Activities	71.7	223.3	3.0	(49.0)
Net Cash flow	33.4	20.0	3.1	(23.3)
Opening Cash/Cash Equivalent	77.5	110.9	130.9	134.0
Closing Cash/ Cash Equivalent	110.9	130.9	134.0	110.7

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	17.3	19.0	19.0	19.0
Reserve and Surplus	625.3	947.2	1,085.2	1,266.8
Total Shareholders funds	642.6	966.2	1,104.2	1,285.8
Total Debt	185.5	237.6	287.6	287.6
Total Liabilities	902.5	1,262.3	1,452.0	1,633.7
Gross Block	335.7	362.0	432.0	492.0
Acc: Depreciation	169.6	194.6	223.9	256.7
Net Block	166.1	167.4	208.2	235.3
Capital WIP	2.2	13.0	3.0	3.0
Total Fixed Assets	169.0	183.3	212.0	239.1
Non Current Assets	26.4	32.4	38.3	41.5
Inventory	419.1	514.6	596.1	678.7
Debtors	283.6	505.2	596.1	714.4
Other Current Assets	37.0	78.4	97.9	117.3
Cash	110.9	130.9	134.0	110.7
Total Current Assets	850.6	1,234.6	1,429.9	1,626.8
Current Liabilities	45.8	83.8	101.3	121.4
Provisions	6.6	10.2	90.0	91.0
Total Current Liabilities	154.5	211.8	251.9	297.6
Net Current Assets	696.1	1,022.8	1,177.9	1,329.2
Total Assets	902.5	1,262.3	1,452.0	1,633.7

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
EPS	4.4	8.1	12.8	16.5	21.1
Cash per Share	8.9	12.8	13.8	14.1	11.7
BV	67.6	74.2	101.8	116.3	135.4
EBITDA Margin	11.9	18.1	21.1	22.0	22.8
PAT Margin	5.0	8.6	13.3	14.4	15.4
RoE	6.5	10.9	12.5	14.2	15.6
RoCE	11.2	15.6	14.8	16.1	17.8
RoIC	11.6	17.3	15.5	16.7	18.1
EV / EBITDA	93.5	57.0	44.1	35.5	28.6
P/E	201.0	109.0	68.9	53.2	41.6
EV / Net Sales	11.1	10.3	9.3	7.8	6.5
Sales / Equity	1.3	1.3	0.9	1.0	1.0
Market Cap / Sales	11.1	10.2	9.2	7.7	6.4
Price to Book Value	13.0	11.8	8.6	7.6	6.5
Asset turnover	1.1	1.0	0.8	0.8	0.8
Debtors Turnover Ratio	3.2	3.3	2.3	2.0	2.0
Creditors Turnover Ratio	16.1	16.1	14.0	11.8	11.7
Debt / Equity	0.1	0.3	0.2	0.3	0.2
Current Ratio	9.3	10.8	10.0	9.9	10.0
Quick Ratio	3.6	4.7	5.3	5.3	5.5

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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