



KRISHNA DEFENCE AND ALLIED INDUSTRIES LTD.

FORMERLY KNOWN AS KRISHNA ALLIED INDUSTRIES LIMITED

DEFENCE | SECURITY | DAIRY | MEGA KITCHEN

Date:- June 02, 2023

To,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex
Bandra (East),
Mumbai - 400 051

Symbol: - KRISHNADEF
ISIN: - INE0J5601015

Subject: Transcript of Earnings Call

Respected Sir/ Ma'am,

Pursuant to Regulation 30 and Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find attached the transcript of the aforesaid Conference Call held on May 29, 2023 at 4:00 p.m.

Kindly take the above information on the record.

Thanking You,

Yours faithfully,
For Krishna Defence and Allied Industries Limited,

Ankur Ashwin Shah
Managing Director
DIN- 01166537

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“Krishna Defence & Allied Industries Limited H2- FY23 & FY23 Earnings Conference Call”

May 29, 2023



**MANAGEMENT: MR. ANKUR SHAH – MANAGING DIRECTOR
MR. PIYUSH PATEL – CFO**

**MODERATOR: MS. ASTHA JAIN – SENIOR RESEARCH ANALYST, HEM
SECURITIES**

Moderator: Good Day, Ladies and Gentlemen, and welcome to the Krishna Defence & Allied Industries Limited H2 FY23 and Financial Year Ended 31st March 2023 Conference Call hosted by Hem Securities.

As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter ‘*’ and ‘1’ on their touchtone phone. To remove yourself from the queue, please enter ‘*’ and ‘2’. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Astha Jain – Senior Research Analyst from Hem Securities. Thank you and over to you, ma'am.

Astha Jain: Thank you very much. Good evening, ladies and gentlemen, thank you for joining Krishna Defence & Allied Industries Limited H2-FY23 and FY23 Earnings Conference Call.

Joining us on the call today are the senior members of the Management Team, Mr. Ankur Shah – Managing Director and Mr. Piyush Patel – CFO of Krishna Defence & Allied Industries Limited.

We will commence the call with the opening thoughts from the Management post which we will open the forum for Q&A session where the Management will be glad to respond to any queries that you may have.

At this point I would like to add that some of the statements made or discussed on the Conference Call may be forward-looking in nature and the actual results may vary from forward-looking statements.

I would now like to hand over the call to Mr. Ankur Shah to commence by sharing his thoughts on the performance and the progress made by the Company. Thank you and over to you Ankur Sir.

Ankur Shah: Thank you Astha ma'am, very good afternoon to all of you and thank you for coming for the Earnings Update for FY23 and Half-Yearly FY23.

Some of you already know about the Company, but some don't. Even for the sake of repetition, I will just give a brief about the Company.

I'm Ankur Shah – Managing Director of the Company. I'm a Production Engineer from Fr. Agnel College, Bandra, and joined the Company in June of 2000. The Company was started in 1997 by my father, the late Mr. Ashwin Shah, who was a double engineer – mechanical and electrical.

We started as an engineering company manufacturing equipment for the dairy industry, which included products like milk cooling tanks, milking machines, stainless steel milk cans. We got

into the defence business somewhere around 2008 where we took up the challenging job of indigenizing shipbuilding steel sections, which we call Bulbars which are used as stiffeners for hull construction of warships. It is a very unique profile which ensures the strength to weight ratio vis-à-vis normal steel angles or channel which are used as structure is 3x. Due to its high strength to weight ratio, if these are used for construction of warships, you are able to reduce the weight of the ship considerably and in place we can add several stealth features like speed, taking additional ammunition and personnel on the ship. In fact, navies across the world use bulbars due to its high strength ratio.

We were also given the “Defence Technology Absorption Award” in 2014 by Prime Minister Sri Narendra Modi for our development of these bulbars as prior to our development, Indian Navy was importing these steel sections from Russia.

We've successfully supplied these bulbars to all the leading shipyards in the country which built ships for the Indian Navy, which includes Mazagon Dock, Garden Reach at Kolkata, L&T, Cochin Shipyard Limited in Kochi and Goa Shipyard Limited in Goa.

In addition, we are also supplying low magnetic permeability steel ballast bricks, which are used for balancing of critical naval platforms, and we are also supplying high alloyed weld consumables which is used for steel welding of critical naval platforms. With the huge warship procurement plan of the Indian Navy, we see ourselves in a good spot to bag some orders in the near future, which would add significantly to our revenues.

We were always on the hunt to add new products that we could indigenize and supply to the defence forces and we are glad to share that we have launched 2 new products one of them is the space heating device developed in close consultation with DRDO. This product is used by the armed forces at high altitude, places like Leh-Ladakh and Siachen to keep the room warm in freezing temperatures and at extreme altitudes that they work at. Due to its unique design, it provides for complete combustion of fuel thereby ensuring there is no carbon monoxide emission. As we all know, carbon monoxide is a very poisonous and harmful gas. We have bagged an order worth about Rs. 64 crores for supply of this product.

The other product that we did special armored steel special profiles, which is used by the army for the construction. Prior to our development these profiles armor steel profiles were being imported by the Ordnance Factories.

We plan to add two new products for the coming years. One of them is composite fireproof doors and hatches in collaboration with the foreign vendor, which could be used by an Indian Navy as replacement to existing steel doors and hatches. We are working closely with the Indian Navy for development of SRGM Lamination. SRGM stands for Super Rapid Gun Mount, which is mounted on warships. There is a huge requirement from the Navy of this particular ammunition and most of the requirements is currently met by imports. Keeping in mind the focus of the Government on Atmanirbhar and Indigenization and the positive indigenization list, the banned

list that is there, we see lots of opportunities for us in the defence sector predominantly where we have successfully developed products for the armed forces and have built good trust and reputation which increases our chances for newer opportunities by multifold.

We as a Company have set a target to grow our revenues at the rate of about 30% to 35% year-on-year for the next three years.

This is in brief about me and the Company. I hand it over to our CFO – Mr. Piyush Patel, over to you.

Piyush Patel:

Good afternoon, ladies and gentlemen. I am please share key “Financial Highlights” for FY23:

The total revenue of the company stood at Rs. 636.53 million at FY23 as against Rs. 499.19 million in FY22, a growth of 27.51%. The Company reported EBITDA of Rs. 88.50 million in FY23 as against Rs. 66.32 million in FY22, a growth of 33.45%.

On a year-on-year basis, the PAT of the Company surged by 115.38% Rs. 52.96 million in FY23 as against Rs. 24.59 million in FY22 and the PAT margins have increased to 8.32% in FY23 versus 4.93% in FY22.

Now coming to the H2 FY23:

The total revenue of the Company stood at Rs. 441.05 million as in H2-FY23 as against Rs. 292.04 million in H2-FY22, a growth of 51.02%. The Company reported EBITDA of Rs. 56.28 million in FY23 as against Rs. 36.53 million in H2-FY22, a growth of 54.06%. The PAT of the Company surged by 195.36% to Rs. 36.57 million in H2-FY23 as against Rs. 12.38 million in H2-FY22 and PAT margins have increased to 8.29% in H2-FY23 as against 4.24% in H2-FY22.

Once again, thank you all and over to you, Moderator.

Moderator:

We will now begin the question-and-answer session. Our first question is from Dipen Vakil with InCred Equities. Please go ahead.

Dipen Vakil:

You mentioned about your product in bulbars and other products otherwise, import substituted or and many other products, so I wanted to understand, or do you have a monopoly in these products, or the competition has now increased? And how do you see that going ahead, that would be my first question.

Ankur Shah:

In terms of Monopoly, no, we don't have a monopoly, but the Navy or the armed forces have a simple policy because these are all critical products and supply of them is very important for the projects, we have one more competitor in most of the products that we have. So, there are about two vendors for all the products that we mentioned and because of this policy, at least we assume that we'll at least get 50% of whatever the requirement likely is to come through because they always split the order to ensure that they're not dependent on one vendor for the supply. And in

terms of the new competition coming in, it is possible, yes but the gestation period for approval registration is at least the 24-to-36-month process. So, there could be, but maybe not in the near sight for sure.

Dipen Vakil: That is very encouraging. Also, my second question is on the positive Indianization list. Since you mentioned it, so I wanted to understand if you have any new product portfolio coming up from the new list or any expected order in the pipeline or anything that's sort of.

Ankur Shah: As I mentioned in my opening remark, we are looking to make two new products. One of them is the composite fire doors and hatches and the other is the Super Rapid Gun Mount Ammunition, which currently is being imported because they cannot put a ban on the product when the product is not yet indigenized. So once the indigenization takes place and once, you're able to show some traction successfully then they will move on the ban list because they cannot simply ban a product which is not available.

Dipen Vakil: Just one small follow up. So how is the timeline for you in terms of the development of the new product from the time it is developed to it is certified by industry and maybe it comes to you back as a final contract?

Ankur Shah: Depending on the product-to-product, but anywhere from 12 months to 24 months because once you make the product, it has to be certified by type testing, field testing and then the order flow begins. So, it is easily a 12-to-24-month period before we can actually start booking revenues for the products.

Moderator: Thank you. Our next question comes from CA Varun Agarwal, an investor. Please go ahead.

CA Varun Agarwal: Congratulations Ankur and team for the wonderful set of results. These new products which we are developing, I just wanted to know the potential size of opportunity of this product and are we the first ones to develop this or there are already people who are manufacturing them in India?

Ankur Shah: I'll answer it in two parts that is there, what the addressable market is there, the addressable market is very large. I would not be able to put on numbers exactly for that because both products differ that is there. But if I have to give you a holistic view, as we say for the ammunition, the total market size, the requirement in the next few years about 5 years to 8 years is going to be over Rs. 1000 crores, that's what we understand. And for the composite door hatches, it could be anywhere from about Rs. 200 crores to Rs. 250 crores that's what we anticipate and currently who's doing these products, currently in India, no one is doing. We have the Ordnance Factory making the ammunition, but the Navy is looking to have another source because they are still looking to import right now so there are talks that they're looking at indigenization.

CA Varun Agarwal: And how are we looking at our margin profile for the next couple of years?

- Ankur Shah:** We see improved trajectory on the margin front as we move forward to because we are currently sitting at a large order book and the unit economics will come into play. We've spent a lot of money in our R&D and CAPEX building, which has already happened in the past few years. So, we will see the benefits and fruits of it in the coming years as we speak. So, we will see some positive revision in that.
- CA Varun Agarwal:** So, would that be maybe a 100-200 basis points or even more than that possible?
- Ankur Shah:** We expect it to be in that range.
- CA Varun Agarwal:** And this order book has on March '23 is mentioned as Rs. 90 crores. Does this already include this Rs. 64 crores of space heating device?
- Ankur Shah:** No, because that order came on the 9th of May if my memory serves me correct. So that is in addition to already orders that we have.
- CA Varun Agarwal:** So as on date, can you share with us the order book price?
- Ankur Shah:** It should be in the range of about Rs. 140 crores to Rs. 150 crores. I don't have the exact number, but it should because we've executed parts of the pending order in the month of April and in May, but it should be in the range of Rs. 140 crores to Rs. 150 crores.
- Moderator:** Thank you. Our next question comes from Saurabh Ved with Ved Family Office. Please go ahead.
- Saurabh Ved:** Your numbers were really good and congratulations on that. My question is to understand how the Company's capacity operates. Are all the production lines usually interchangeable to manufacture all our products, the defence products like bulbars, high specialty steel, the weld consumables as well as the dairy equipment. I just wanted to understand how this operates.
- Ankur Shah:** I have picked up a few words from this because your voice was a bit low nevertheless, I understood your question. So, we have two separate factories in Gujarat in Baroda. One factory we manufacture only the dairy equipment business so that's a separate line for all the products that we have on the dairy segment. Coming on the defence front, we have separate lines for the bulbars, for the weld consumables and also for the ballast bricks. But there are some equipments which are common like the heat treatment facilities, the furnaces but most of them are tailor made and customized to suit what the naval requirement is there.
- Saurabh Ved:** Another question I have in continuation is the new products that you're looking at the SRGM and the composite fireproof doors and hatches. Will that utilize the same capacity and what kind of CAPEX would you look at, if you get these orders.
- Ankur Shah:** Some of the existing facilities could be used but that's not to a large extent. For both the products we will have to build infrastructure and capacity to be able to cater to that. We will have to do

CAPEX. I wouldn't be able to put a number on it right now because we are still at the design and the development stage. Once we have more concrete numbers I would share with the forum.

Moderator: Thank you. Our next question comes from Rajat Vohra with Nuvama. Please go ahead. Rajat, your line is unmuted, you could please ask your question.

Rajat Vohra: So, just wanted to understand the recent order book that you have got over the last 2-3 months itself just in the start of the financial year. How much is going to be extended by this financial year, that is FY24, if you can just throw a light on that.

Ankur Shah: We there would be some spill over to the next year, but we would be completing the major part of all the orders within this financial year. In terms of percentage, I'm looking at about close to 70%-odd execution within this year that's our target plan.

Rajat Vohra: As of end of May or middle of the May it was around Rs. 160 crores to Rs. 165 crore of total order book, that means Rs. 90 crores was end of March and Rs. 60 crores to Rs. 70 crores which have come from the last 2-3 months itself. So, of that say around 70% we should assume that it should be executable this financial year.

Ankur Shah: Yes, that's the plan but as these are complex products, there could be some variation in that number. So that's why I don't want to give an absolute number. I'm giving you an approximate range that this is our plan. We wish to execute the majority of the orders; we will do whatever is possible to ensure that we are executing the orders, but to give you an approximate number, we see about close to 70%-odd.

Rajat Vohra: And the next question is, let's say with the current capacity that you're having and in your previous question you said that the economies of scale would happen and then the more operating margins can move up from there, I wanted to understand with the current capacity, how much of the order book or the total order execution that that can happen without taking new additional lines or building up new capacities.

Ankur Shah: For the current orders that we have and if we have and if we have to do as per our plan about close to 70% within this financial year, we will not have to do any major CAPEX. When I say major CAPEX, for the factories of our size of one, Rs. 1 crore to Rs. 1.5 crores happens in terms of automation or whatever that you bring in there would be some addition in terms of workforce that we will have to do to cater which has already started. So, no major CAPEX to service the orders or to execute the orders that we have right now. There would be some small CAPEX in terms of small automation or lifting systems, but nothing major, no new factory setup or line setup if that's what you wanted to ask.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Ms. Astha Jain for closing comments.

Astha Jain: On behalf of Hem Securities Limited, I thank Krishna Defence & Allied Industries Limited team for giving the time we spend on this call and responding all the queries in the detailed way. I would also like to thank all the participants for joining this call. Now, I would like to hand over the call to the Moderator.

Moderator: Thank you, ladies and gentlemen, on behalf of Hem Securities, that concludes this conference. Thank you for joining us. You may now disconnect your line. Thank you very much.