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To,
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Mumbai - 400 051

Ref:- Krishna Defence and Allied Industries Limited (ISIN: - INE0J5601015)

Symbol: - KRISHNADEF, Series: - ST

Subject: Transcript of Earnings Call

Respected Sir/ Ma'am,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, please find enclosed herewith the transcript of the Earnings Call held on 03.06.2022 at 4 p.m.

Kindly take the same on the record.

Thanking You,

Yours faithfully,
For Krishna Defence and Allied Industries Limited,

Charmy Shah
Company Secretary and Compliance Officer



**“Krishna Defence and Allied Industries Limited
H2 FY2022 & Full Year FY2022 Earnings
Conference Call”**

June 03, 2022



ANALYST: MS. ASTHA JAIN - HEM SECURITIES

**MANAGEMENT: MR. ANKUR SHAH – MD - KRISHNA DEFENCE AND
ALLIED INDUSTRIES LIMITED
MR. PIYUSH PATEL- CFO - KRISHNA DEFENCE AND
ALLIED INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Krishna Defence And Allied Industries Limited H2 FY2022 and full year 2022 Earnings Conference Call hosted by HEM Securities. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Astha Jain from Hem Securities. Thank you and over to you madam.

Astha Jain: Thank you Rutuja. Good afternoon ladies and gentlemen, thank you for joining the Krishna Defence and Allied Industries Limited H2 FY2022 and full year 2022 earnings conference calls. From management team today we have with us Mr. Ankur Shah – Managing Director; and Mr. Piyush Patel - Chief Financial Officer of company. We will commence the call with the opening thoughts from the management team post which we will open the forum for Q&A sessions where the management will be responding 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 maybe forward looking in nature, the actual results may vary from these forward looking statements. I would like to hand over the call to Mr. Ankur Shah to commence by sharing his thoughts on performance and progress made by the company. Thank you and over to you Sir.

Ankur Shah: Thank you Astha. A very good afternoon to all of you and thank you for coming for the investor’s conference for financial year 2022 for the financial results. Firstly, I would like to thank all the investors for believing in Krishna Defence and giving us an overwhelming response to our IPO.

Let me start by introducing myself, I am Ankur Shah – Managing Director of the Company. I will give you a brief overview of the company’s business and will then take you through the financials post which we will have the Q&A session.

A bit about me. I am a Production Engineer from University of Bombay at Bandra, Mumbai and joined the company in June 2000. The company was started in 1997 by my father late Mr. Ashwin Shah, who himself was a Double Engineer in the field of Mechanical and Electrical. We started off very small with about 12 employees and about 2000 square feet of shade which have now grown to 200 plus strong team and our factory spreads across a 100000 square feet. We have a registered office in Mumbai and have two plants in Baroda, Gujarat one in Halol where we manufacture products for the defence and in Kalol again near Baroda where we manufacture equipment for the dairy industry mainly for milk collection and procurement. I know the obvious question, what is the connect between dairy industry and defence industry and I say the connect is engineering.

We started in 1997 as a manufacturing company supplying equipment like stainless steel milk cans, milk cooling tanks and milking machine for the dairy industry. During this journey, we came across an opportunity to develop and supply a particular product for the Indian Navy and we grabbed that opportunity with both hands. One of our prime products for supply to the defence is bulb bars. Bulb bars are ship building steel sections used by the Indian Navy for stiffening of the hull of warships. It has a very unique profile which ensures that the strength to weight ratio is three times of normal structural steels like angles and channels due to which we are able to reduce the weight of the ship. Reduction in weight of the ship helps to increase the speed, we can take more load and we can take more ammunition on the ship. We were the first to develop the bulb bars in India in partnership with a DRDO lab popularly known as DMRL which is Defence Metallurgical Research Laboratory based out of Hyderabad. We were also given the Defence Technology Absorption Award in the year 2014 for our development of this product by none other than our Prime Minister, Shri. Narendra Modi as prior to our development the Indian Navy was importing these steel sections from Russia. We have successfully supplied these steel sections to all the shipyards that build surface ships for the Indian Navy which include the top shipyards, Mazgaon Dock in Mumbai, Garden Ridge Shipbuilders and Engineers in Kolkata, L&T at Hazira, Cochin Shipyard Limited in Kochi and Goa Shipyard Limited in Goa. Post our successful supply of bulb bars for surface ships, we also got certified by the Russian Navy for higher strength bulb bars which are to be used for critical applications of the Indian Navy. We in the recent past have added two new products and successfully supplied them to the Indian Navy. These include zero magnetic permeability steel ballast brakes which are used for balancing of critical vessels and the steel having zero magnetic permeability properties is very difficult to detect. The other product that we have successfully developed and supplied, these are complex alloy weld consumables which are used for welding of very high tensile plates again the application for them is critical navy applications both these were an import substitute. Even this year, we have added a few products for which we have taken transfer of technology from other wings of the DRDO which is an improved space heating device called the Bukhari which is used at very high altitude like Siachen where the temperatures are sub-zero to heat up the room. We are also working in tie up with a couple of companies one is from Belgium and the other one from UK for development of modular vehicle barrier and multipurpose launcher. We have already started work on the same and we will be supplying them within this year itself.

On the development front, we have been assigned a project by the navy for developing an ammunition for a particular naval gun. We are working towards that and we should have some sales of them post successful development in the next financial year. We as a company have set a target to grow our revenues at the rate of about close to 40% to 50% year-on-year for the next three years keeping into mind the Make in India and the

indigenization program of the Indian Navy. This is in brief about me and the company. I hand over to our CFO, Mr. Piyush Patel. Over to you Mr. Piyush.

Piyush Patel:

Thank you Ankur Bhai. Good afternoon ladies and gentlemen. I am going to give you financial highlights for the FY2022 and H2 FY2022. Now coming first with the total revenue: Total revenue of the organization for the FY2022 stood at Rs.50.34 Cr as against Rs.36.33 Cr in FY2021. So thereby it has shown a growth of 38.56%.

Now talking about the EBITDA, our company reported EBITDA of Rs.7.06 Cr in FY2022 as against Rs.5.71 Cr in FY2021 and it has registered a growth of 23.64%. Now talking about the PAT: On year-on-year basis, our PAT has surged by 32.26% to Rs.2.46 Cr in FY2022 as against Rs.1.86 Cr in FY2021.

Now coming to the H2 FY2022 results: First we look at the total revenue, the company has achieved a turnover of Rs.29.36 Cr in H2 FY2022 as against Rs.20.98 Cr in H1 FY2022 and shown a growth of 39.94%. Now talking about the EBITDA for the second half of the FY2022, company has reported EBITDA of Rs.3.81 Cr in second half of the FY2022 as against Rs.3.25 Cr in first half of the FY2022 and shown a growth of 17.23%.

Now coming to the PAT: Company has shown a profit of Rs.1.24 Cr in H2 FY2022 versus Rs.1.22 Cr in H1 FY2022. So once again I thank you all and over to you moderator.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Nilesh Doshi, an individual investor. Please go ahead.9.15

Nilesh Doshi:

Hi! I congratulate the management for good results and in particular congratulations in order for conducting the conference. My question is do we collate the orders, orders in hand.

Ankur Shah:

Are you asking what are the pending orders in hand.

Nilesh Doshi:

Yes, what are the order receipts in every quarter or half yearly and what are the unexecuted orders, so that we can have some eye on the future that what we can do in the next year.

Ankur Shah:

So I can tell you what the other book stands as of now. The order book is about 18 to 19 Cr as of now predominantly shifting about 85% of that will be for the defence and the remaining would be towards the dairy industry.

Nilesh Doshi:

And if I can slip in one more question, what is the payment terms like, do we get it within three months or how does the payments work.

- Ankur Shah:** Generally since these are very critical products, the inspection happens not only at the final stage, but in between in-process inspection also happens for these products. So there are four stage inspection starting from raw material to first stage to second stage and once the final material is dispatched, we generally get our payments within 60 to 90 days.
- Nilesh Doshi:** And what is the cycle from the start of order to final delivery to the defence, the time lag.
- Ankur Shah:** Yes, the typical lead times that we take to manufacture an order ranges depending on the size and the quantity of order anywhere from about three months to about five months odd.
- Nilesh Doshi:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Chinmay Bhandari, an individual investor. Please go ahead.
- Chinmay Bhandari:** Hi! Congratulations for the good set of numbers and my first question is, is there any Capex plan for FY2023.
- Ankur Shah:** For FY2023 we have already done the infrastructure and the Capex that is required to service the order for the next couple of years however we will need some automation to be done, not automation I say, some mechanized way to reduce the dependence on workforce. To put an amount to it, it should be in the range of about 1 to 1.5 Crores.
- Chinmay Bhandari:** My next question is like how much revenue generated from top five or ten clients.
- Ankur Shah:** So for us in terms of the defence for the bulb bars we have four, five clients which I explained which is Mazagon Dock, KRAC, CSL. So all the business comes from all of them it is distributed depending on who is making the ship and at what period have they placed their order.
- Chinmay Bhandari:** My last question is what do you think are the sustainable EBITDA margins in the long run according to you.
- Ankur Shah:** For the defence business we anticipate currently I believe we are about in the range of 15% to 20% EBITDA, but as you know with steel and specialized products the more you produce the more economical you get because of economies of scale. So in the coming years we see a significant improvement in our EBITDA margins.
- Chinmay Bhandari:** Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Shubham Jain, an individual investor. Please go ahead. 14.23

Shubham Jain: Sir good evening. First of all congratulations for good set of numbers. My question is we have some significant inflation on metal commodities. So how will this impact our company or what are we doing to mitigate it.

Ankur Shah: So absolutely spot-on there have been significant increase in steel and commodity pricing however in our case most of the products that we do, the raw material component is about 25% to 30% vis-à-vis the ratio of the finished product. So we are not that heavily impacted by the increase in raw material price and as it is we have almost finished most of our orders that were in the prior period except the orders that we have in hand. The newer orders that we are going to be bidding for we will be accounting for the new increase in price that is in store.

Shubham Jain: Sir my next question is can you give segment wise EBITDA margin you just mentioned 15% to 20% of your aggregate margin will be for the year. So I just want to see there is some guidelines for segment wise EBITDA margin if you provide to me.

Ankur Shah: For the dairy industry the EBITDA margins are in the range of about 8% to 10% whereas for the defence is about close to 15%, 20%.

Shubham Jain: Thank you so much Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Vibhor Jain an individual investor. Please go ahead.

Vibhor Jain: Thank you for giving me the opportunity. Congratulations to the management for the good set of numbers. My first question is what are the order inflow to company over the next few years.

Ankur Shah: As I mentioned the current order book is about 18 to 19 Crores and with the expansion of the navy with the current situation and India has a 7000 kilometers sea coast, the navy has a very, very ambitious plan of having about close to 145 ships in the next 20 years to happen and so we are very, very upbeat about the new naval orders that are likely to come in. Unfortunately, for the last two years because of COVID and other issues no new projects have come up so we are expecting for the next two years that projects that have going to come in 2019-2020 will get a spillover in this current year. So we are looking at good requirement in the next few years for us.

Vibhor Jain: Sir can you tell me why there is a fall in the net profit margin.

- Ankur Shah:** Yes I will ask the Piyush bhai our CFO to answer that. Piyush Bhai over to you.
- Piyush Patel:** To answer your question, I would like to first tell you about the EBITDA. If you look at the EBITDA percentage it has increased from 12.66% to 14.02% in the year FY2022, but PAT percent has slightly gone down. So reason for the same is that in defence segment we have added new products as rightly said by Ankur bhai are weld consumables and the ballast bricks and for these products we have made capital investment of around 5.31 Cr in the FY2022 and owing to this capital investment, our depreciation extension has gone up and for these projects we have also recruited new manpower, skilled and trained manpower. So our employee costs have gone up from 6.51 Cr in FY2021 to 9.13 Cr in FY2022. These are the main reasons for slight decline in the PAT percentage.
- Moderator:** Thank you. The next question is from the line of Srishti, an individual investor. Please go ahead.
- Srishti:** We have a significant inflation on metal commodity. So how will this impact Krishna Defence and what is the way to mitigate it.
- Ankur Shah:** I will just reiterate, the raw material ratio to the finished ratio for the products that we manufacture is only about 30% so even a 5%, 10% increase adds only couple of percentages to our final cost of product. In addition, we have almost finished our supplies that are there it is only a few pending orders that are remaining with us which should get done very soon and the newer orders that we have bid for, we have accounted for the increase in price while bidding.
- Srishti:** Particularly I am asking you that how we are planning to reduce trade receivables and inventory days that would be quite helpful.
- Ankur Shah:** Trade receivables and inventories.
- Srishti:** Yes.
- Ankur Shah:** Madam our trade receivable and inventory if you see as I mentioned the working capital cycle being large because it is a specialized product and most of our clients are government as we know they are all the shipyards, the maximum sale happens in the last quarter just to put in a number and I stand corrected with Piyush bhai I think the sales in the last quarter itself will be close to about 20 odd Crores because before 31st March there are certain timelines to be met. So most of the supplies are enforced in the last quarter. So because of that the trade receivable and inventory at that point of time seems higher. Piyush bhai can you just add on to that one.

- Piyush Patel:** So this is the main reason because our sales happens in the last quarter itself and due to this sales we have procured majority of material in last quarter around 11 Cr in last quarter and our credit period is around 90 days. So you can also see the trade payables are also on higher side in FY2022 this is the main reason for that.
- Srishti:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Rohit Agarwal from Z1N Capital. Please go ahead.
- Rohit Agarwal:** Sir my question is basically related to, is the company looking at foreign collaborations or joint ventures since the company has built significant expertise in the defence sector and is there any order inflow from outside the country.
- Ankur Shah:** Very interesting, Sir we are trying to explore possibilities because under the current provision of the government of India import of items less than 200 Crores is completely restricted plus they have come out with three list positive indigenization list which items cannot be imported at all. The so-called ban list as we call it. So we are in talks with one company for a collaboration for supplying products, we will be taking the technology from them, building it over here and supplying. But sir to be honest it is very primitive right now we have not been able to formalize any product. So we are just still on paper, we are still talking right now.
- Rohit Agarwal:** Thank you for answering my questions.
- Moderator:** Thank you. The next question is from the line of Nilesh Doshi, an individual investor. Please go ahead.
- Nilesh Doshi:** I wanted to ask regarding our capacity, we are doing over 50 Crores of turnover in the whole year and if I heard correctly, you said you plan to grow 40% to 50% every year so assuming at the end of 2024 March we could be around 125 or maybe one third more than that. So do we have the capacity, production capacity to do all this.
- Ankur Shah:** Interesting question Sir. We have already ramped up our capacity in the past two years, COVID times we have tried to do those things in anticipation of a few orders but they have not come through as no new projects in navy has come in and the current capacity utilization for us is only about 35% and we are confident that with minimal Capex as I mentioned about close to 1.5 Crores we will be able to service a business over 100 Cr in the current capacity itself.
- Nilesh Doshi:** Okay thank you.

Moderator: Thank you. The next question is from the line of Chinmay Bhandari, an individual investor. Please go ahead.

Chinmay Bhandari: I have two more questions, first is what are the opportunities for the company in near future in both defence and dairy segment.

Ankur Shah: In the defence segment the existing products of course we are supplying the bulb bars, the weld consumables and ballast bricks, we plan to add on two products every year in our avatar. So couple of products that I mentioned that we are working on is the improved space heating device and also a particular ammunition which is to be mounted on naval gun. So these two, three projects is something that we are working on and also on the dairy industry, we are working on a few automation where we can automatically clean the tanks remotely and we can have database of the same, we have a robotic milk collection unit. So we are working on growth opportunities at both the levels.

Chinmay Bhandari: My next question is are you planning to enter into some new segments apart from defence and dairy.

Ankur Shah: Currently no, we wish to stick to what we are doing right now, the opportunities in defence are looking very, very promising. So we use our resources in order to utilize our potential 100% to focus on the defence as of now that is number one priority for us.

Chinmay Bhandari: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen due to time limit this was the last question. I would now like to hand the conference over to Ms. Astha Jain for closing comments.

Astha Jain: Thank you Rutuja. On behalf of HEM Securities Limited I thank Krishna Defence and Allied Industry Limited team for responding all the queries in a detailed way. I would also like to thank all the participants' for joining this call. I would like to hand over to the moderator.

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