Date:- June 22, 2022

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 November 18, 2022 at 4:00 p.m.

Kindly take the above information on the record.

Thanking You,

Yours faithfully,
For Krishna Defence and Allied Industries Limited,

CHARMY BIREN SHAH
Digitally signed by CHARMY BIREN SHAH
Date: 2022.11.22 12:25:12 +05'30'

Charmy Shah
Company Secretary and Compliance Officer

"Krishna Defence And Allied Industries Limited

Q2 FY '23 Earnings Conference Call"

November 18, 2022

MANAGEMENT: **MR. ANKUR SHAH – MANAGING DIRECTOR – KRISHNA DEFENCE AND ALLIED INDUSTRIES LIMITED**
MR. PIYUSH PATEL – CHIEF FINANCIAL OFFICER – KRISHNA DEFENCE AND ALLIED INDUSTRIES LIMITED

MODERATOR: **RAMADHIN RANE – HEM SECURITIES**

Moderator: Good day, ladies and gentlemen, and welcome to the Krishna Defense and Allied Industries Limited H1 FY '23 Earnings 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 star and one on their touchtone phone. To remove yourself from the queue, please enter star and two. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ramadhin Rane from Hem Securities. Thank you, and over to you, sir.

Ramadhin Rane: Thank you very much, Michelle. Good evening, ladies and gentlemen. Thank you for attending Krishna Defense and Allied Industries Limited, H1 FY '23 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. We will commence the call with the opening thoughts from the management, post which we will open the forum for the 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 strategic performance made by the company. Post Mr. Ankur, Mr. Piyush will share details on the H1 FY '23 financial performance. Thank you, and over to you, sir.

Ankur Shah: Thank you, Mr. Rane. A very good afternoon to all of you, and thank you for coming for the investor conference for the half year early results of FY '23. Some of you already know about the company, but some of the new or potential investors may not know in detail about who we are or about our company. Hence, I will take a few minutes just to talk about myself and the company to begin. I'm Ankur Shah, Managing Director of the company. I'm a production engineer from Father Agnel College at Bandra, and I joined the company in about June 2000.

The company was actually started by my late father in 1997, who himself was a double engineer in the fields of Mechanical and Electrical. We had humble begins to start off, we were about 12 employees and 2,000 square feet shed to right now over the 200-plus strong team and the factory spread across 100,000 square feet. We have a registered office in Mumbai and have two plants in Gujarat near Baroda, one in Halol, where we manufacture equipment for the defense and another unit in Kalol, which is about 10 kilometers away, where we manufacture equipment for the milk collection and procurement.

Again, I know some of you always asked this question when I have met a few investors in terms of what is the connection between the defense and the dairy industry? How can the company be doing.. the same the company were doing two so separate segments that are there. And I always say the connect between both of them is engineering and technical skill. So we started in 1997 as a manufacturing company for supplying stainless steel milk cans, milk cooling tanks and the milking machine in the dairy segment. So traditionally, all engineering products. During the journey, we came across an opportunity to develop and supply a particular product for the Indian Navy, and we grab that opportunity with both hands.

So one of our prime products that goes to the defense right now, as we call it, is the bulb bar. Bulb bar basically our shipbuilding steel sections used by the Indian Navy for stiffening of the hull of the warships. It has a very unique profile, which ensures the strength-to-weight ratio is 3x of normal structural steels like angles and channels, due to which the weight of the ship can be reduced.

As we all know, lighter ship adds to several features like better speed, I can take more ammunition, more people on the ship, and most importantly, a great stealth feather. We were the first in the country to develop these bulb bars in partnership with a DRDO lab called Defense Metallurgical Research Laboratory or in short known as DMRL in Hyderabad. We were also awarded the DTA award in the year 2014 by Prime Minister Shri Narendra Modi for a development of these bulb bars because prior to a development, the Indian Navy was importing these steel sections from Russia.

We have successfully supplied these bulb bars to all the shipyards that build ships for the Indian Navy, which include Mazgaon Dock, Garden Reach in Kolkata, L&T, Cochin Shipyard in Kochi and Goa Shipyard Limited in Goa. Post the successful supply of bulb bars for the survey ships, we also got certified for higher strength steel bulb bars which are used for critical applications of the Navy.

Just a clarification here. Indian Navy does not procure bulb bars directly from us. So the Navy release is a tender inquiry for a type of a ship, say, a frigate or carved and we have all the shipyards bidding in foray, whichever is the shipyard that has quoted the L1 price, they will bag the order, be it Mazgaon Dock or GRSE, CSL, so on and so forth. Once they are award given the order to start building the ship, they would in turn place order on the steel bulb bars on us, which will start their construction of ships. So I thought I'll just explain that.

In the past a couple of six months or something, we have added two new products in the Navy line, as we call, it's called the last Ballast bricks, which have a very special property. It has no magnetic signature. These are again used for critical naval applications. And other is specialized well consumables, which are used again for welding of steel at critical platforms for the Navy. We always have been in the hunt to add new products that we could internees and supply to the Indian Navy and as we move forward. We are constantly in touch with the various labs of DRDO and already in consultation to build newer products as we move forward.

We started a new segment of Homeland Security in about 2020 or that is there. But unfortunately, COVID hit in and two years was a bit slow, that is there for us. But now we have started to see good traction on that front also. Recently, I'm glad to share that we signed an MOU with IIT Bombay, one of the wings of IT Bombay for development of some products for internal securities.

With the aggressive warship procurement plan of the Indian Navy, we see ourselves in a good spot to bag some good orders in the near future, which would add significantly to our revenues as we move forward. We, as a company, have set a target to grow our revenues, the rate of about close to 40% to 50% year-on-year for the next few years, keeping in mind the Make in India, the Atmanirbhar program and the indigenization program of the government. This is in brief about me and the company. I now hand it over to our CFO, Mr. Piyush Patel. Over to you, Piyush Bhai.

Piyush Patel: Yes. Thank you, Mr. Ankur. Good afternoon, ladies and gentlemen, and welcome to this H1 FY '23 Earnings Update Conference Call of the company. In financial highlights, starting with the total revenue, for H1 FY '23, total revenue of the company stood at INR 19.55 crores versus INR 20.72 crores in H1 FY '22, marginal dip by 5.64%. The company reported EBITDA of INR 3.22 crores in H1 FY '23, as against INR 2.98 crores in H1 FY '22, thereby showing a growth of 8.09%. And EBITDA margin percentages have increased from 14.38% in H1 FY '22 to 16.47% in H1 FY '23.

Now coming to the net profit of the company, it is surged by almost 34.26% to INR 1.64 crores in H1 FY '23 as compared to INR 1.22 crores in H1 FY '22. And PAT margin have increased from 5.9% in H1 FY '22 to 8.39% in H1 FY '23. Once again, thank you all for this conference call. Now I'm handing over to the moderator for proceeding with the Q&A session. Over to you, moderator.

Moderator: We have the first question from the line of Shubham Jain, an Individual Investor.

Shubham Jain: Hello Sir, Good Afternoon, First of all Congratulations for the order, which recently you have updated with the Exchange And sir, my first question is what is the reason for lower contribution of dairy business to the revenue? So can you suggest something?

Ankur Shah: Yes, sir. I didn't get your name though, Yes. Sir, unfortunately, the lumpy skin disease has hit India, as we all know. And one of the segments in the dairy that we deal in is dairy farming the milk procurement. So our product is the milking machine and the rate A products. Because of this unprecedented thing happening, it's like a COVID happening for the livestock that we have. There has been severe panic amongst the small and the dairy farms that are they due to death of the livestock. That's the reason we are seeing a dip in the dairy segment as we talk.

Shubham Jain: Sir, my next question is, can you say that detail about the order book, order in hand or something pending revenue to book. Like just -- you have mentioned your earlier order. So we have some update about the upcoming orders or anything you provide to us?

Ankur Shah: I'll just so in order to answer in detail, our current order book is about close to INR 42odd crores, of which about 39.5% to 40%, if figures are correct, is towards the defence sector and about 2-odd crore towards the dairy sector. In line with as we move forward, we are in advanced stage of getting few other purchase orders in the next month or so, which will be updated on the exchange. And we are all set to close our FY '23 the remaining six months, as we had projected earlier with a 40% to 50% growth in revenues from FY '22.

Shubham Jain: FY '22, 40% to 50%, right?

Ankur Shah: Yes.

Shubham Jain: FY ’23.Okay, Thank you Sir, I’ll get back to you.

Moderator: We have the next question from the line of Nikhil Chandak from JM Family Office.

Nikhil Chandak: My question was you mentioned in the opening remarks that we could grow at, say, 40%, 50% for the, say, the foreseeable future. I was just seeing that our asset base right now is roughly around INR 13 crores, INR 14 crores. And what I wanted to check is what capex would you really need to do to kind of get to that growth number of 40%, 50% over the next, say, three, four years? Is there some significant capex, which will need to be done or the current asset base should be sufficient to get that kind of top line growth?

Ankur Shah: Thank you sir, interesting question. I will -- what I wish to say is in the last three years, we have done capex that are there from what my memory serves me correct again, sir, I'm not a finance person. I'm an engineer. I get the business. So I will leave the numbers to Piyush bhai he'll confirm that.

But from what I know is we've invested significantly in the range of about close to INR 5 crores to INR 7 crores in the last two, three years to build up and ramp up our capacity. In the last two years have been slow in terms of no new naval projects coming up. So we were using this to ramp up our capacity because we know the plans that the Navy has. And the projects that did not come for the last 2, 2.5 years, all are likely to come in. So there is likely to be a spill over effect and we are expecting good growth to come in, in our segment.

So we've built up our capex to be able to reach to that level. And to put it forward currently, our capacity utilization is about 30%, 35%. And if we have to achieve the growth for the next two, three years, we have done the capex to be able to achieve the revenues. As we move along, I might be doing capex investments, but those will be for automation or mechanization that amount will be in the range of about INR 1.5 crores odd that is. It's not going to be all have to set up a new line as we move forward, That would be probably after three years or something, nothing significantly as I see for the current product range that we are building.

Nikhil Chandak: So in that case, then your asset turns are extremely high. I mean, what would be like a good asset turn to note for the company? If you say that we wouldn't need any capex or incremental capex and whatever we have is done in that INR 14 crores, INR 15 crores I think the asset turns becomes quite significant. Is that understanding right?

Ankur Shah: Yes. The understanding is right. Sir, again, what we have done in the last three years because the last 2.5, the COVID that is there. And post that, we have tried to strategize our production capacity. So when we are building a product for the Navy, these are steel sections which require several processes as we move forward to.

What we have done is we've developed a very good vendor base, where the noncritical jobs like simply something like the plate cutting, which we are doing in-house, short-Blasting, painting, which are very regular processes. We are not doing in-house. We are doing -- we are outsourcing all of them.

We've developed vendor base in and around our factory so that we are doing the high-value addition jobs and not doing the so we have not had to invest in very standard machineries like cutting machines and presses and all that, that we've tried to outsource, and we are doing the critical parts.

Hence, the ratio in terms of the asset to the turnover that you're talking, it seems like that if you see our labour job and that has been increasing because we have tried to outsource the noncritical jobs outside.

Nikhil Chandak: Understood. Thankyou so much.

Ankur Shah: Thankyou, I hope I have been able to answer you correctly.

Nikhil Chandak: Yes. This is right. Thankyou.

Moderator: We have the next question from the line of Chinmay Bhandari an Individual Investor.

Chinmay Bhandari: Congratulations for good numbers. And I would have a few follow-up questions since the last con call. So in the last con call you mentioned that you will be working on two new developed products and you are working for defence products and you are working on some special kind of ammunition for Indian army. So what's the update on that?

Ankur Shah: Right. Great. Chinmay, I remember you from last time. And so if I heard you correctly, you asked about the two developed products and the ammunition we're talking about, right? So out of the two products, one of the product is time tested and approved that is there, which is the Bukhari. And fingers crossed everything goes well, we should be bagging an order for the same, but too early to call.

For the second product, it's under development at our end, once that is done, we'll be presenting to the DRDO lab for taking it for. On the third product that you said on the ammunition, but the -- it is still work in progress. It's still work in progress, and we are also trying to get some technology from an international company to take it forward, but still early days to call to move forward on that one.

But this is work in progress. Defence products are pretty critical and has involved a high level of engineering and technicality. So it takes time to build up. A few months is 2 less. It takes at least a year plus to develop a product and to be able to successfully present it.

Chinmay Bhandari: And sir, last time, the last only said that you were expecting an order book of around INR 18 crores to INR 19 crores. But currently, your order book is already of INR 42 crores. So can we see some more increment here? Or is it sufficient order book for the financial year '23?

Ankur Shah: No. As I indicated the first question, we are expecting that we have a couple of orders which are in the final stages, which should be coming up soon. And I will put it up at the exchange. We try to follow the policy of putting up the exchange the moment we get a large size order. So you guys will be updated as we move forward.

Chinmay Bhandari: And sir, my last follow-up question is you said that you were trying to do some international collaborations after the ban from like import from China. So were you successful in doing those collaborations? Or we are still in the talks?

Ankur Shah: No, we are still -- it's still in talking terms. We have done the initial round and the initial paper work, but it's still work in progress, sir.

Chinmay Bhandari: And sir, my last question is in this Half year results. You have seen some increase in trade receivables. So if you can tell me the reason why is that?

Ankur Shah: I'll have to pass that question. I'm sorry. Piyush bhai, would you be able to answer that one? I'm not known the numbers, please.

Piyush Patel: Trade receivable have gone down significantly, if you can see. So if you look at the overall balance sheet, you can see that the receivables from our customers have decreased and total debtors have gone down. So around INR 7.28 crores. So that fund for we are utilizing repayment of our trade payables and some amount has been utilized in inventory. So this is our main policy of managing the working capital. So you must have seen the payable on lower side, right? What we are talking about.

Chinmay Bhandari: Okay Sir, That's it from my side. Thankyou.

Moderator: We have the next question from the line of Anshi an Individual Investor.

Anshi: I just have two questions. First is that how do you foresee the commodity pricing going forward and its resultant impact on the margin?

Ankur Shah: Right. And your second question, ma'am?

Anshi: Sir, second question is you had mentioned about reducing dependence on workforce in the last con call. So I would like to understand the progress on that front as well.

Ankur Shah: Reduction in...

Anshi: Reducing dependence on workforce.

Ankur Shah: I'll take the first one. You're right that the commodity prices have been fluctuating. However, in our case, because these are all high-value items, the ratio of the raw material to the finished product is not very high. So it constitutes only about 20%, 30%, depending on the product to product. So even a 10% plus/minus in the commodity price does not affect significantly to our margins as we talk. However, since these are all contracts that have to be fulfilled in six months or eight months, we procure the raw material at one go.

So we are insulated in terms of any incremental things that are likely to come as we move forward. So that's how we are protecting any commodity price fluctuation as we move. And to reduce workforce I don't remember on that one, but what the idea is to utilize to become more efficient with the workforce that what we have. So that's what I said, we will be doing investments in terms of mechanization, rigs, fixtures and tools and trying to do semi-automation such that we are becoming more efficient in the current workforce in which way increasing productivity.

Anshi: Okay Sir. Thankyou.

Moderator: We have the next question from the line of Shubham Jain an individual investor. That would be a follow-up question. Please proceed.

Shubham Jain: Hello. Sir, my next question is, as I see in the current number H2 is slightly down from March INR 29.20 crores, say, I guess up numbers have INR 19.55 crores. So sir, is this for a particular see H1 H2 reasons or maybe is a Y-o-Y compare I want to say is a feasible business or something is H2 will be better from H1 is like a seasonable sale, which come down numbers? So can you please explain the...

Ankur Shah: Yes, a very valid question. Generally, all the defense orders that are there all come in about quarter 2 quarter, it all comes in the latter half of the year. So traditionally, for the past few years, you will always see that our -- the last two quarters are -- contribute significantly the revenue that is there vis-a-vis the first two quarters. They're a bit quiet because the funding goes and once the funds are allocated. So April, May, June it goes in that, -- this is a standard thing that comes with defense, at least that is what we have faced. So always, the H2 is heavier than the H1. This is our standard pattern.

Shubham Jain: And sir, second thing is from operating margin, and we have seen the very good growth numbers in operating margins. So sir, can you explain what is the main factor for increasing the margin for this H1?

Ankur Shah: Yes. I'll give you an answer on the business side. If you want a more financial answer, I'll ask you to finish and fill in after me. So as this half year, our defense sales has increased, although the total revenue, there has been a slight dip by as about close to 5%. But our defense revenues have increased, hence, and defense products have a higher margin vis-a-vis the dairy segment. That's the reason overall combined, you're seeing a higher operating margin. Piyush Bhai would you like to please add on this?

Piyush Patel: Yes. What Ankur bhai said is correct. If you look at the sales mix, then you will come to know that defense vertical contribution in total revenue has increased up to 77% out of the total revenue. And in defence sector itself, higher-margin products contribution has increased compared to the last H1 FY '22 -- if you see the product mix.

And in products mix, if you look at the dairy and defense with our recent product margin has contribution has increased in September '21. Out of the total revenue, manufactured product revenue was only around INR 14 crores and rest of the other products. In H1 FY '23, it has increased to around INR 17 crores. So this is the main reason why our operating margin have increased to a great extent...

Shubham Jain: And sir, my last question is -- and do we have any dividend policy in the future because I have an investor. So I want to know if we are planning to announce a dividend or some dividend policy, so it will be good for us.

Ankur Shah: Sir, when we are likely to announce you guys will be the first ones to know that we are going to be announcing a dividend that is there. We are growing right now. And we are here in for the long run, we want to ensure that all the people that are associated with us the shareholders, all of them have benefited. So that is definitely on the cards, but to put in a number or something I have will not be -- it's too premature to do it right now, sir.

Shubham Jain: Okay, Thankyou Sir. Good luck.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Mr. Ramadhin Rane for closing comments. Over to you, sir. any closing comments, Mr. Ankur has...

Ankur Shah: Yes. I thank all the people who have joined all the investors and shareholders who have joined in the con call. I appreciate the love that you are showing for a company of our size. And we assure you that we will entrust the faith that you have put into us because we are growing, and we are very excited about the future, keeping in mind how fast the Navy is going to grow. So thank you, and please continue to support us. Thank you very much.

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