

28th February 2024

Astra Microwave – BUY

CMP : Rs. 619.0
Target Price : Rs. 744.0
Upside : 20%+
Stop Loss : Rs. 535.0 (Closing basis)

Investment Thesis

- Astra Microwave Products Ltd. (Astra Microwave) has moved up the value chain from manufacturing sub-systems to development and manufacturing of a wide range of high-end, critical microwave and radio frequency (RF) application-based equipment such as Monolithic Microwave Integrated Circuit (MMIC) products, multi object tracking radar and airborne radars due to its strong domain expertise in microwave and RF applications. It has also developed advanced manufacturing as well as R&D facilities which helped it to has strong in-house capabilities. It is one of the few private sector manufacturers in India with in-house capabilities of designing, developing and manufacturing critical microwave and radio frequency based equipment that find applications across defence, space, meteorology and telecom and civil communications.
- With government's emphasis on strong and modern warfare technologies and combat defence platforms for the armed forces has created a strong demand for products/systems like electronic warfare, radars, communication systems, navigation systems etc. in defence platforms. Astra Microwave is strongly placed to capture a larger pie of the growing Indian defence sector with deep domain expertise and high focus on R&D. It has designed, developed and manufactured critical sub-systems/systems for various airborne, naval and ground based platforms such as Radar, Missile Electronics, Electronic Warfare (EW), Satellites, MMIC and Communication.
- Astra Microwave's outstanding capabilities and track record in manufacturing high value-added systems, RF and microwave super components and sub-systems have allowed it to build a broad and robust order book. As of December 2023 end, its order book remained at a strong Rs.1,813Cr (2.2x TTM sales). Its order book consists of 70% in Defence, 11% in Space, 4% in Meteorological and remaining 15% is export order. Strong tailwinds in the defence and space industries for the indigenization of critical systems and subsystems present enormous order inflow opportunities in both domestic and export markets for Astra Microwave. By 2028, the company anticipates order worth ~Rs.8,000Cr, mostly in space and defense electronics. With more local purchase of raw materials and subcomponents, the risk of supply chain problems would decrease and overall execution would also improve.

Financials

- Astra Microwave's revenue and PAT grew by CAGR of 17.6% and 2.7%, respectively, during the last 5 years led by government emphasis on indigenization of defence sector and its diversified and healthy order book on the back of its strong capabilities.

Consol. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	6,409	7,505	8,155	8,645	9,941
EBITDA	797	896	1,481	1,718	1,975
EBITDA Margin (%)	12.4%	11.9%	18.2%	19.9%	19.9%
PAT	289	379	698	915	1,057
EPS (Rs.)	3.3	4.4	8.1	10.6	12.2
P/E (x)	185.8	141.6	76.8	58.6	50.7
RoE (%)	5.2%	6.5%	10.9%	11.4%	12.0%

Stock Data

Market Cap (Rs. Mn)	58,770
Market Cap (\$ Mn)	703.8
Shares O/S (in Mn)	94.9
Avg. Volume (3 month)	450,000
52-Week Range (Rs.)	694.00 / 213.30

Shareholding Pattern

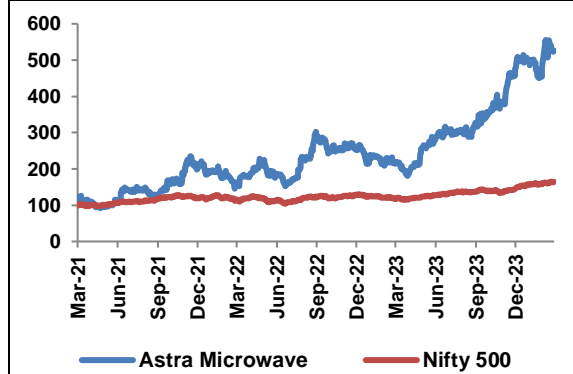
Promoters	6.54%
FII's	2.94%
Institutions	14.79%
Others (incl. body corporate)	75.73%

Key Ratios

Div Yield	0.3%
TTM PE	73.3x
ROE	11.1%
TTM EPS (Rs.)	8.45/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	18.5%	43.8%	80.1%
NIFTY 500	5.8%	4.8%	12.2%



- Astra Microwave has reported 5.0% YoY and 21.6% QoQ growth in revenue to Rs.2,298mn in Q3FY24 driven by healthy order execution.
- Astra Microwave's EBITDA grew by 26.1% YoY and 60.5% QoQ to Rs.668mn majorly due to higher revenue proportion of domestic defence which command higher margins. As a result of this, EBITDA margin also grew by 490bps YoY and 700bps QoQ to 29.1% in Q3FY24.
- Astra Microwave has bagged new order worth Rs.257.3Cr during Q3FY24 of which 70% order constitute from defence, 11% from Space, 4% from Meteorological and remaining 15% are export order.

Key Business Highlights

- Astra Microwave is engaged in designing, development and manufacturing of sub-systems for Radio Frequency and microwave systems used in defence, space, meteorology and telecommunication.
- Astra Microwave design, develop and manufacture critical sub-systems and systems for its customers for building various airborne, naval and ground based platforms. Its clientele includes Ministry of Defence (MoD), Defence Research & Development Organization (DRDO), ISRO, defence PSUs, etc.
- Astra Microwave's product range includes radars, missile electronics, electronic warfare, satellites, MMIC (Monolithic Microwave Integrated Circuit) and communication systems.

Valuation

Astra Microwave generated 36.2% revenue from exports including deemed exports in 9MFY24. It also has 15.2% of the total order book in export as of Q3FY24 and has significant part of deemed defence export orders. We expect with meeting offset requirements by foreign OEMs, increasing R&D investments, increasing indigenization level of critical sub-systems and systems and lower cost of production will create significant opportunity for Astra Microwave. We expect Astra Microwave's Space segment will also have sizable opportunity going ahead as it holds significant position in development of sub-systems for various space programs by ISRO. To cater to space segment, Astra Microwave has incorporated a wholly owned subsidiary, Astra Space Technologies in February 2024. New subsidiary will be engaged in design, development, manufacture and acquire belongs, integration of satellites, satellite pay loads, launching of satellites and establishment of ground stations for satellite tracking.

With moving up the value chain to manufacturing a wide range of high-end, critical microwave and radio frequency application-based equipment, government's great emphasis on strong and modern warfare technologies and combat defence platforms for the armed forces and strong order book of Rs.1,813Cr (2.2x TTM sales), we are assigning BUY rating to Astra Microwave Products Ltd. (Astra Microwave) and value at 61.0x FY25E EPS of Rs.12.20 to arrive at target price of Rs.744.00, an upside of ~20.0%+.

Risk & Concern

- Astra Microwave is highly dependent on government contracts and its associated entities which exposed it to various risks like stringent regulatory norms.
- Any delay of existing or anticipated contracts or programs as well as any adverse change in the government defence or space requirements may have adverse impact on Astra Microwave.
- Any increase in cost of raw materials or inadequate raw material supply may affect margin of Astra Microwave.

Graphs & Charts

Figure 1: Net Sales Trend

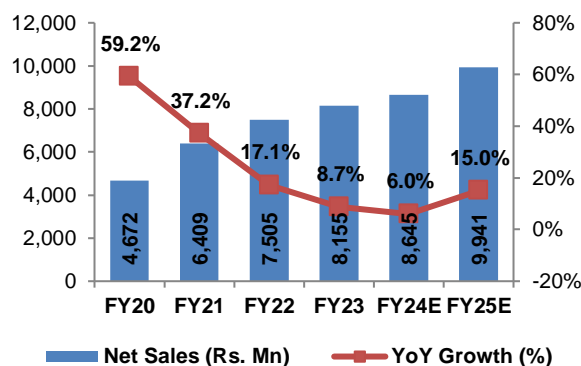


Figure 2: EBITDA & EBITDA Margin Trend

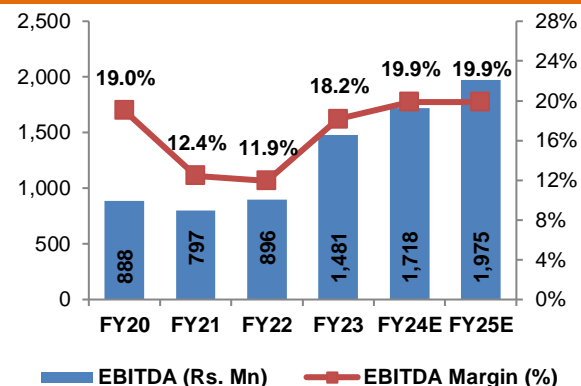


Figure 3: PAT Trend

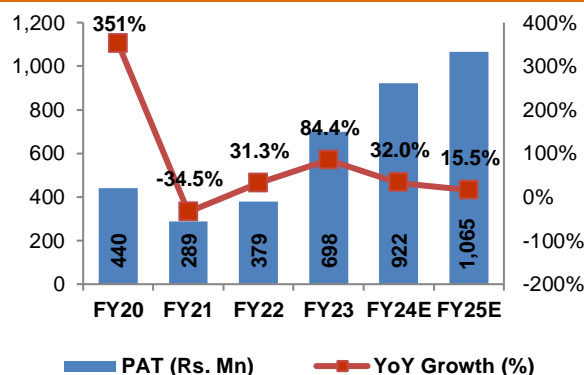
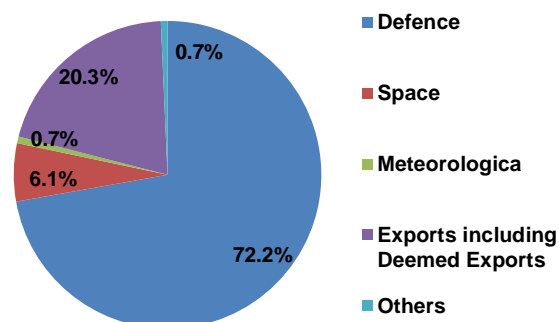


Figure 4: Segment-wise Revenue (Q3FY24)



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