



Date: 14th November, 2018

BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	National Stock Exchange of India Ltd., Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051
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Scrip Code: 540879

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Dear Sir(s),

Subject: Transcript of Earning Conference Call held on 2nd November, 2018 with the Analyst/ Investors on the Un-audited Financial Results and performance of the Company for the Quarter Ended September 30, 2018 (Q2FY19)

We refer to our letter dated 01st November, 2018 regarding the intimation of Earning Conference call with the Analyst/Investors on the Un-audited financial results and performance of the Company for the Quarter Ended September 30, 2018 (Q2FY19) Scheduled on 02nd November, 2018 at 5.00 P.M (IST)

In this regard we herewith enclosed the transcript of the Earning conference call as required under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015.

We request you to kindly take the above information on records.

Thanking You

Yours Faithfully

For Apollo Micro Systems Limited

Vitta Chaitanya Siva Shankar
Company Secretary & Compliance Officer

Enclosure: As above

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“Apollo Micro Systems Limited Q2 FY19 Earnings Conference Call”

November 02, 2018



**MANAGEMENT: MR. KRISHNA SAI KUMAR ADDEAPALLI – DIRECTOR
MR. CHILUVERU SUDARSHAN – CFO**

Moderator: Ladies and gentlemen, Good day and welcome to the Q2 FY19 Earnings Conference Call of Apollo Micro Systems Limited. We have with us on the call today Mr. Sai Kumar, Director, Mr. Chiluveru Sudarshan CFO. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sai Kumar Director Apollo Micro Systems Limited. Thank you and over to you, sir.

Krishna Sai Kumar: I welcome all for the announcement and discussion for the Q2 Results. We are very happy that we have posted a good tremendous growth in the Q2 compared to the previous year and overall H1 figures as well. And Board is very happy to look at the results and at the same time we have also announced interim dividend in this quarter for the overall performance and taking also into the confidence that investors have bestowed upon us. So, I will not drag it much. I would request if you have any queries you can quickly ask so that we would be able to answer it.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Vishal Bajaj from Bajaj Shares and Securities. Please go ahead.

Vishal Bajaj: I have only two questions. Now going forward are you looking for total turnover of more than 260 crores, 270 crores if the progress of this Q2 continuous and second question is the order on hand which are to be executed by 18-19 can you tell about that?

Krishna Sai Kumar: Firstly, I would like to say most of the results are not annualized results this we have been talking right from the beginning the day from when we got listed also we told very clearly that our results are never an annualized results, but the trend at which the last four quarters have gone it will be a similar kind of trend on an up. I would not be able to throw any figure in a speculation that this year we would be able to post so much in terms of both top line or a bottom-line, but as far as each Q1, Q2, Q3, Q4 is concerned the momentum with which the last year how it would be it would be a similar kind of a momentum that is point one. Point two we are very shortly going to announce, we are expecting one good project it is almost repeat project from one of our customer so we are waiting it for quite long time so once it comes you want to announce the consolidated order book which was going to happen very shortly mostly post the festive we are expecting the order to be officially be announced. Okay once it gets announced we will announce it in the market along with the cumulative order book that we have. So, at that point of time it would be open to everybody.

Moderator: The next question is from the line of Bhaskar Kalyanam from Minasa Management Consultant. Please go ahead.

Bhaskar Kalyanam: I have three questions. Question one is looking at the industry of the defence sector it is a industry likebig oceans so many players are there and moreover it is a public sectorunderstanding we cannot do much, research forexactly what is the life cycle of each products and how much orders are coming I just want you throw light on the offset government, offset policy what is the latest stand of how much percentage coming back to India from whatever International purchase government is doing that is one thing and is there any benchmark like the percentage of cost of sale of each OEMs in this PSE will stand in electronic system design and manufacturingthis is my first question?

Krishna Sai Kumar: It is very difficult to ascertain what is the quantum of electronics within the offset or something because the demography of it keeps changing based on the different types of projects that are being announced in offset which got announced very long back, but still the offset obligations are not made by most of the OEMs and some of the offset base contract that are getting released and it is not so easy. Although a lot of different, different figures are being given by various consulting firms both from the ministry of Defence and lot of research firms and all, but the exact percentile is all depends finally when the offset is actually met and the offset is recorded on individual OEMs. So, whatever the figures that are coming out both from the researched firms and various other things actually those are not any benchmark kind of percentage in terms of percentage or any other thing, there are only ballpark figures the variation could be ranging from 15% to 20%, 25% also if compared to what most of the people are posting. So, I do not think it would be of great relevance, but the way it has to be understood is that the latest DPP as a policy there are continuous changes that are coming in terms of the offset particularly as a Make in India then both the design as well as manufacturing in India variety of kind of clauses are coming and amendments are coming on day-to-day basis, but the idea that we have to understand here is that lot of contracts are getting opened and now there is a lot of pressure from the government that offset obligations have to be met by all the OEMs otherwise their future is not going to be great here in the country. So, the momentum has got caught and it is going to be very bright. I think I would like to talk it on a surface level instead of talking in numbers because the numbers are actually not correct which are mostly published, and the most important point is that as the day stands we are not in offsets so I would prefer not to talk much deeper on that.

Bhaskar Kalyanam: My question is like in automobiles percentage of cost of sales goes to paints like that is this OEMs of the defence sector how much percentage spend on ESDM Electronic System Design Manufacturing is there any rough idea so that we can calculate the demand for the company like yours?

Krishna Sai Kumar: Can I take this question at the end of the session there is something that we have combined earlier I can try to share it with yourself.

- Bhaskar Kalyanam:** Regarding the industry seeking coming to your quarterly financial it is good that quarter-on-quarter is growing, but I think it is more of a seasonal nature one quarter will be good, one quarter will be little bit less because of your long term contract, but when I am looking at your EBITDA margin so there is a sudden spurt in the margin of the latest quarter it comes to nearly 6% whereas in the last three quarter it is hardly 1% to 2% is there any specific reason why EBITDA margin shot up in this quarter?
- Krishna Sai Kumar:** Some of the projects which we expected to get closed in last financial year March 18 there was a small shift in the execution actually which did not happen in the first quarter and it got slipped in the second quarter actually. So, most of them were in a WIP phase and the execution happened in the Q2 so I think that actually gave an impact of it?
- Bhaskar Kalyanam:** One little observation just look at your margin your cost of material whether it is annually or in quarterly it is mostly 80% to 90% of your sales figure in the last four year or in your last four quarter but this quarter observed is hardly around 60% to 70% like 78 crore top line and cost of material is only 48 crore, so why there is a sudden drop in your percentage on sales regarding your cost of materials?
- Krishna Sai Kumar:** So, you mean to say the cost of materials percentage is improved is what your question.
- Bhaskar Kalyanam:** Yeah because of that the margin has increased why there is a drop-in percentage of cost of material?
- Krishna Sai Kumar:** That is what my answer was actually some of the projects which supposed to get executed last financial year in the month of March there was a slippage on it because already the procurement of those were there and which got combined with few more other similar kinds of projects so there was an optimization actually. So, overall cost of material what you call significantly cost towards the material consumption got reduced actually.
- Bhaskar Kalyanam:** Can you name the client is it possible to tell the name of the client?
- Krishna Sai Kumar:** No sir.
- Bhaskar Kalyanam:** Are you planning for any kind of acquisition in this SME sector so that you can grow in bigger in this space?
- Krishna Sai Kumar:** We are actively talking sir something meaningful strike definitely we are going to clinch it actively we are in discussion with few companies.
- Moderator:** The next question is from the line of Rajesh Sharma as an Individual Investor. Please go ahead.

Rajesh Sharma: I would like to beg to differ with the other participants that the results have actually been good because if you exclude the other income component the EBITDA margin actually down sharply and the profit before tax is also down and only because of certain tax adjustment we made we record an increase in profit. My second question is that there is a sharp jump in the receivable position and the working capital situation is in fact deteriorated compared to even 31 March 2018 and sir thirdly I attended L&T conference call yesterday and they were saying the defence orders are down sharply from the government and they did not give any kind of positive indicators in terms of any of these things going forward, so if you would address these questions?

Krishna Sai Kumar: Mr. Rajesh I will come from the backwards there is no comparison with the platform manufactures like L&T their contracts are purely depend on so many other demography and there is no comparison between the platform manufactures and our kind of companies. I mean to say in pockets in different areas and we are not depended on a single platform or any kind of a specific program over which there is an anchoring of our business happening. So, in that way the announcement which the other company does particularly the platform manufacturers to kind of our business there is a lot of difference there is no comparison point one. Point two is that you have specifically mentioned that as far as the other income is concerned if the other income is removed then there is going to be a significant change in or fall in the profit. The earlier tax adjustment of 52.5 lakhs is there that is the only thing that is going to actually majorly affect the profits where we have given an earlier there was a provision for it and that provision we have done an additional provision that additional provision has got opened up but otherwise the cumulative if you see H1 results comparatively it is much better than the last year H1 results. You can once again revisit your question on that that is another thing.

I think the L&T this thing is what I answered. Another point is that there is nothing like a different kind of projections in the defense. We are entering a phase of what you call election year for which maybe the platform manufacture could have a problem but we are working on lot of strategic programs and there is no issue as far as political scenario or maybe an election or budgeting or such kind of issues that will come into giving any kind of serious impact over the business and we have also working on some non-defense business so which will also further anchor to our business and we are working on BTB program and strategic program. There are different areas where we are working and overall the scenario is positive as far as Apollo Micro System is concerned and as such we are not comparing ourselves with big giants like particularly a platform manufactures that is what I wanted to say.

Rajesh Sharma: Sir would you give any kind of guidance in terms of revenue for the year?

Krishna Sai Kumar: I have answered first question which another participant has asked Mr. Rajesh that the momentum with which we have recorded our business in the previous financial year the similar momentum would be there on a quarter-on-quarter basis and on an escalated basis so

this financial year is also is what we are expecting. I may not be able to throw any specific figure or keep you in a speculation, but I think the results that we have posted last year on a quarter-on-quarter basis there will be similar momentum of growth this financial year as the day stands and where the projects are standing.

Rajesh Sharma: I also had a question regarding the receivable position which is also seeing a sharp jump?

Krishna Sai Kumar: Receivable is definitely agreed. There was a little ageing of the receivable, but it has come almost into control in this month and it will be fully in control by November end actually. We are equally depended on various SIs that we are working with it could be a public sector or a private sector yes there was some ageing and receivables in the Q2 and because the Q2 sales has also got increased that has also added to the effect actually, but yeah it is got into control to some extent in this quarter it will be fully in control.

Moderator: The next question is from the line of Saurav Ginodia from Stewart & Mackertich. Please go ahead.

Saurav Ginodia: Sir in continuation with the question which one of my previous participants has asked with respect to the order book if you can just generally highlight what kind of trend in order inquiry have you seen in the last couple of quarters?

Krishna Sai Kumar: We generally always had an order book somewhere ranging between next 9 to 12 months. This is an average figure.

Saurav Ginodia: What quantum of repeat order are you anticipating from one of your customers any size or ticket size?

Krishna Sai Kumar: Ticket size I may not be able to tell, but as I have told you to the previous participant also there is one repeat order which we are expecting post which we are going to announce the repeat order as well as the total quantum of outstanding order on hand. Definitely we are banking always on a repeat order business and repeat order is something is the key survival for the company and the momentum will continuously be going to be there because there is budgets already available and various customers whom we are working with they are already holding order, but we pick orders on a strategic basis one after another generally platform manufacture is released order one after other that is why it would be.

Saurav Ginodia: If I look at your EBITDA margin for the first half compared to the previous first half they are under pressure basically because of the gross margin decline, so how do you foresee the gross margin trends going forward in the next half and for the next financial year?

- Krishna Sai Kumar:** Last year first half the gross profit margin was definitely high, but generally the gross profit margin of the company has always been a same level what we have posted in half actually. It is plus or minus 1% to 2% actually. So, going forward also it would be going to be same because the scaling up of the business is also happening on a continual basis. So, this is the right trend of the gross profit margin is what you can understand.
- Saurav Ginodia:** If you can just give some kind of an indication of what kind of EBITDA margin one can expect for FY19?
- Krishna Sai Kumar:** No sir it would be too speculative.
- Saurav Ginodia:** But any general ballpark range would be helpful?
- Krishna Sai Kumar:** The trend has always been at similar fashion I think if you can see Mr. Saurav something it would be better than this previous year is what I can tell you broadly.
- Saurav Ginodia:** And about the IPO proceeds how much have we utilized and what is the balance amount pending yet to be utilized?
- Krishna Sai Kumar:** IPO utilization we have already announced in the market for the last quarter. This quarter we are going to announce sometime in next three to four days.
- Saurav Ginodia:** As I could see that the working capital cycle has been under quite a bit of pressure so going forward as the business grows will it require further infusion of working capital or one can expect some improvement on the working capital cycle?
- Krishna Sai Kumar:** Primarily the business and sector in which we are working the working capital is always a strain working capital and which we have been talking about right from the beginning. Yes,we understand that this will have a toll over the cash flow so we have started working on lot of B2Bprojects wherein there will be lot of improvement or instead of saying an improvement I can say that there will definitely be lot of resistance and support which will give an anchor to the strained working capital. So, going forward in a summary I can say that it is going to be definitely much better.
- Saurav Ginodia:** And any indication on the tax rate for the full year?
- Krishna Sai Kumar:** When I cannot speculate my PBT is the same with the tax right.
- Saurav Ginodia:** Because in Q2 what I could see that there has been a tax write-right back as we have rightly explained to the previous participant question, but just wanted your thought process on the full year tax rate?

Krishna Sai Kumar: There is no further such adjustment or the provision that we have given so for the Q3 or Q4 I do not think there could be any such additional provision which would get added back actually so it is going to be full.

Saurav Ginodia: So, for the full year one can expect the full taxability at the full tax bracket?

Krishna Sai Kumar: Yeah.

Moderator: The next question is from the line of Shyam Sundar from CIL Securities. Please go ahead.

Shyam Sundar: First of all again congratulations for putting up a really decent number story out there. I know you have a long-drawn plan to take it much beyond. Even you have mentioned in your policy document of reaching four figure top-line at some point in time. I am sure you are working in that direction. I also know that you are restricted from talking a lot of things and cannot give a lot of guidance, cannot talk much about numbers and all. The point is the business model we guys really understand little less than obviously from other businesses this is little off-the-cuff kind of a thing so ultimately boils down to the number game. For a start you said the comparison is not much to do with the platform guys and all so really speaking apple-to-apple what kind of comparison can we have that is point number one. What is the kind of piethat you are operating in like smaller segment of the business. So, if you talk something about that probably about the business model. About the numbers I have one or two points still and I think these are not future-looking but backward-looking things so can I just ask them?

Krishna Sai Kumar: Yes, please go ahead.

Shyam Sundar: So, you mentioned from this year onwards is not considering the excise duty and things like that, but last year fourth quarter also it was already into the GST regime so this top line growth from 56.67 to 77 point something is direct comparison is that right?

Krishna Sai Kumar: To some extent.

Shyam Sundar: In Note #4 it is mentioned that from this quarter it is the GST adjusted.

Krishna Sai Kumar: You are very much right. The note has carried basically because there is a comparison of last year non-GST regime quarter also that is the reason note has carried so I do not think it has a big significance.

Shyam Sundar: I do not know whether you already mentioned I hope I am not missed out on, but the operating margin comparably have gone down significantly on the face of it, is there an explanation for that on a year-on-year basis, is it something to do with the lumpiness of the business,

seasonality should not come when we are talking about year-on-year but is it the lumpiness of execution of project that makes this difference?

Krishna Sai Kumar: It is partly attributable to the lumpiness of the business actually. So, some of the quarter will have some much better margin business, some of the quarter will have not much better margin business. So, definitely you can majorly or partly attribute it to the lumpiness actually.

Shyam Sundar: From project-to-project the margins will differ quite a bit substantially is that right?

Krishna Sai Kumar: I cannot say substantially, but it will definitely differ from quarter-to-quarter.

Shyam Sundar: Because I can see that it is roughly come from almost 28% to barely 12% now 800 bps difference in operating margins Y-on-Y for this quarter is that right?

Krishna Sai Kumar: 28 is what actually.

Shyam Sundar: Last year same quarter Q2 was operating EBITDA margins were about 20?

Krishna Sai Kumar: September you mean to say '17.

Shyam Sundar: I mean it is not EBITDA really it is PBT margins.

Krishna Sai Kumar: PBT H1 17 was around 11.

Shyam Sundar: Yeah 11.3 crore is PBT on 56 crore turnover revenue, this time it is around 9.08 against 77 and this 9.08 includes other income of 83 lakhs, last year other income was only 7 lakhs and this other income I am talking apart from the 52 lakhs tax write-back that has been shown separately so we are not even considering that. So, the other income maybe other operating income you call whatever it is here it is 83 lakhs this quarter whereas last year same quarter it was barely 7 lakhs.

Krishna Sai Kumar: Sir if you look into the absolute numbers, I think it is not comparable, but if you look into the percentage H1 17 the PBT is 11.02% and H1 18 is 12.59 or maybe a decimal figure is there.

Shyam Sundar: No, I am talking Q1 not H1 quarter because or I mean how should we take it generally we talk quarter-on-quarter next quarter?

Krishna Sai Kumar: Specific quarter September quarter of last year the nature of the business that has been done the gross profit margin was high so there was an effect on the PBT you are on line. So, compared to this financial year when the gross profit margin at that point of time was very high so the PBT was the one which was also equally high at that point of time. The same effect

has got passed on to the PBT, but whereas September '18 it is a 20.48 including other income it is 7.7%.

Shyam Sundar: I am presuming that after the IPO, you may have deployed the funds and gone for a lower margin also so that the bottom-line can be boosted, is it one way of looking at it and does not matter if it is adding to the bottom-line that is the clinker actually, but is it that way and if so should we talk about this Q2 of the latest numbers as something kind of a ballpark going forward?

Krishna Sai Kumar: I answered the previous gentlemen also that this is a normal ballpark which that this trend is common in most of the quarters actually, but the September '17 quarter was a little peculiar where we had a little better margin project actually that is the only reason, but this is the figure September '18 whatever the ballpark figure.

Shyam Sundar: I think the numbers are otherwise quite good, very promising compared to other players of course, we talk about defense players we do not much understand on platform and other things. Okay if this is the run rate going forward, I think it is very encouraging we definitely look forward for that.

Moderator: The next question is from the line of Sailesh Kumar from Sunidhi Securities. Please go ahead.

Sailesh Kumar: I have couple of questions first thing I wanted to know is there any threshold margin level which company has decided that below which they will not accept any order and what is that threshold margin?

Krishna Sai Kumar: Very curious question Mr. Sailesh but it is very tough to answer it this is the toughest question in this entire session I should say. See primarily we work like this is basically we are not a product company and the decision of a minimum operating margin is what we work there. We end up to do a sustained business is what I can say for that particular type of technology. If we are working on only a specific technology, then there is something like a figurative which would be there. At the time of securing projects, it depends on the type of technology and whom we are bidding and the competition in place. End of the day you are supposed to get the project right. So, keeping the operating margin at a good and better operating level which is not going to erode the margins of the other business that we are doing is what is the basic threshold level of the operating margin we are operating which is as good as the average operating margin in which the business is running.

Sailesh Kumar: Basically, what is the execution period average execution period for the order that we receive I would say defense installation has given an order to PSU and then it comes to us so then what is the timeframe in the whole process?

- Krishna Sai Kumar:** 3 months to 18 months depending upon the type of the project.
- Sailesh Kumar:** So, I mean once you receive from those PSU clients you executed between 3 to 18 months that is what you want to say?
- Krishna Sai Kumar:** I want to clarify that the PSUs are alone not the customers there are many other customers we are working directly with the DRDO, with the PSUs, with the private defense, and many other companies.
- Sailesh Kumar:** And how has been broader change in business environment say over last two, three years and how do you see it going forward?
- Krishna Sai Kumar:** As far as Apollo Micro System is concerned it is positive and we see a lot of visibility in many programs that we have been working earlier and some of the futuristic program for which core design development activity is happening, the visibility is very strong get going and thanks to the Make in India so many programs where good development has been taken up for several years and erstwhile foreign OEM used to supply but because of the Make in India there is lot of promotion for the indigenously developed systems and that is giving a very strong visibility for the years coming forward.
- Sailesh Kumar:** Sir if I may squeeze in next five years down the line where do you see the company in terms of technology, in terms or order book clientele and overall positioning in the value chain?
- Krishna Sai Kumar:** I will not say it is a tough question but we would be a very prominent company. I will not say that we would reach the mark of some X figure or something like that. We would be a prominent company and a key role player in many of the programs where we are presently working on is what I can say as of now.
- Sailesh Kumar:** Do we envisage consistent flow of order for a company like us which are mainly into technologies?
- Krishna Sai Kumar:** There is a strong visibility.
- Moderator:** The next question is from the line of Rajesh Sharma as an Individual Investor. Please go ahead.
- Rajesh Sharma:** I just had one question sir that on our current capital employed which is roughly about 350-400 crore I do understand that there is a short-term negative working capital because of certain projects which can get executed over the next two quarters, what is the kind of maximum turnover we can sustain on the current capital employed without having to go for more capital in terms of either debt or equity?

Krishna Sai Kumar: I think the question is coming back with a different flavor Rajesh, but yeah primarily, I will answer the question like this. The type of programs where presently we have been working earlier is based on the kind of equity that we have and the capital employed and we used to pick the similar level of project actually. Post public issue we have started bidding for programs where we will be able to address in a large ticket kind of project. So, the demography of executing a last ticket order and the type of turnkey solution that we are addressing to kind of a very small subsystem or a system level execution. The working capital cycle is totally different and how we optimize the utilization of the raw material which are similar or common amongst the various program. So, if we were a product company it would have been very easy to answer your question, but we are solution based company, but yes going forward unless the very large ticket kind of a project hits into our account I do not think any additional infusion of funds maybe required very shortly I think the way I understood the question I am answering if there is anything wrong you have to come back to me.

Sailesh Kumar: I mean is there any ballpark kind of range maybe turnover that you can achieve with the current capital employed some kind of a range is what I am looking at in terms of either turnover or capacity utilization?

Krishna Sai Kumar: Similar kind of solutions what we are presently offering something like around 450 to 500 should be the figures where if we are comfortable, but if the league is changed maybe the scenario could be different but the similar kind of solution what we are offering I think somewhere between 400, 450, 500.

Moderator: Ladies and gentlemen that was the last question. I would like to hand the conference over to Mr. Sai Kumar for closing comments. Thank you and over to you, sir.

Sai Kumar: Thanks Mr. Aman and I specially thank all the participants I only know six names out of various participants who were there in the call specifically I would take the names Mr. Vishal, Mr. Bhaskar, Mr. Rajesh, Mr.Saurav, Mr. Shyam and Mr. Sailesh. Thank you all for keeping confidence on the company. We will definitely keep performing a much better and keep improving on a day-to-day basis. We also have a noting of each and every point that you have asked. Some of the concerns are noted and we are working towards addressing all of them that is what I would like to say in summary and we have also given an interim dividend and MD at this point of time he could not join the call he had to go to the customer place for some key discussions. A special thanks from him as well for all of you to participate in this call with me and CFO of the company and my Company Secretary Mr.Mr. Vitta Siva Shankar.

Moderator: Ladies and gentlemen on behalf of Apollo Micro Systems Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.