



“Mazagon Dock Shipbuilders Limited Q1 FY24 Conference Call”

August 11, 2023



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MODERATOR: MR. AMIT DIXIT - ICICI SECURITIES



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Moderator: Ladies and gentlemen, greetings and welcome to the Mazagon Dock Shipbuilders Limited Q1 FY24 Conference Call hosted by ICICI 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 Mr. Amit Dixit from ICICI Securities. Thank you and over to you, sir.

Amit Dixit: Thanks, Ryan. Good evening, everyone and thanks for joining the call today. At the outset, I would like to thank the Management for giving us an opportunity to host this call.

From the management, we have today Shri. Sanjeev Singhal - Chairman and Managing Director (Additional Charge and Director Finance), Shri. Biju George – Director (Shipbuilding) and Shri. Vasudev Puranik – Director (Corporate Planning and Personnel).

Without much ado, I would invite Mr. Singhal for “Opening Remarks” post which we will open the floor for an interactive Q&A session. Over to you, sir.

Sanjeev Singhal: Thank you, Amit. Good afternoon all the participants to this meeting. Glad to inform that as far as Q1 is concerned, Mazagon Dock Shipbuilders performance has been fairly stable. Our revenues compared to CPLY as well as with the last quarter of the previous financial year are quite comparable. The profits are on the higher side, taking the other income into consideration and execution progress is as per the plan. We are targeting delivery of the third ship of project 15 Bravo that is a missile destroyer, sometime end of second quarter this year or early third quarter this year. We have already delivered 2 vessels, one in 2021 and 2022 and continuing with the same trend that these two vessels were delivered prior to the contractual delivery date, the third vessel is also expected to be delivered four to five months prior to the delivery date.

In addition, as the audience may be aware, we have received an order for MRLC of one number of submarine. This is German make submarine, which was pressed into service some 36 years ago. It has come to Mazagon Dock Shipbuilders Limited for a medium refit and life certification. The total order value is approximately Rs. 2,700 crores. So, the company is doing well. We have submitted a price bid for six number of AIP fitted submarines under project P75I. As we proceed, I am sure that there would be questions on that and as per the questions, we will submit the clarifications. So, I propose that we can move ahead with the questions of the participants.

Moderator: Thank you. Ladies and gentlemen, we will now be conducting a question and answer session. Our first question is from the line of Jayesh Shah with Yes Securities. Please go ahead.



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Jayesh Shah: Good results and clearly in line with what the management had guided to earlier. I just had a couple of questions, sir. So, one you did mention the bid has been submitted for 6 submarines which would be fitted with AIP. So, that has been in tie up with TKMS, correct, sir?

Sanjeev Singhal: Yes, this is in collaboration with TKMS, Germany.

Jayesh Shah: Seconds sir, any guidance on the three submarine orders which has been in the news and Prime Minister Modi when he visited France, there was a lot of discussion, but nothing concrete in terms of the order flow, which will finally happen to Mazagon Dock. So, any guidance you would want to give on that?

Sanjeev Singhal: Order flow does not happen so fast because these are very high value orders although this is a part of the same platform, Scorpene submarines. But considering that a significant time has elapsed between the previous order and these three submarines, which are called additional submarines or add-on submarines, so these are not exactly the same submarines. Lot many equipment would be changing in these submarines, these platforms are likely to be more potent. Some discussions have to be there. Navy is also in the process of finalizing the equipment and some discussions would be held with the Mazagon Dock Shipbuilders and our collaborator Naval Group. So, as far as the order is concerned, yes, that would be coming to Mazagon Dock, but it would be taking up some amount of time. At present, it would be difficult to quantify but we can expect maybe in four to six months things should be in place.

Jayesh Shah: And last question sir from my side. There was Mazagon Dock also tied up with the Warship Design Bureau. I mean, can you throw light on what is the tie-up for and what is the likely outcome? I believe this is for P76, but request if you can throw some light on that tie-up. That was the last question.

Sanjeev Singhal: Warship Design Bureau, we have entered into a MoU. This is with respect to the indigenization of these equipment of Scorpene fleet. We have already delivered 5 submarines, the 6th one is targeted to be delivered this year by March 24 and we are also bidding for additional 3 submarines. So, this requires that this fleet of submarines is maintained for next 30 to 40 years, which would require a significant dependence on the foreign collaborators. To avoid that, MDL has been undertaking a very ambitious program with respect to indigenization of almost 8,000 components of what goes into this submarine. In addition, Warship Design Bureau is also working towards the indigenization of submarine under the Project P76. So, we are in discussion with Warship Design Bureaus, to explore how these efforts of indigenization, which WDB is looking at and which MDL is targeting can be mutually beneficial for both the program as well as MDL. That is the current Scorpene program as well as the P76 program. So, we will be working on these aspects jointly.

Moderator: Thank you. Our next question comes from the line of Rohit Natarajan with Antique. Please go ahead.



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- Rohit Natarajan:** Sir, could you quantify the number of vessels and any technology aspect like will it be AIP, will it be diesel-electric, what kind of technology are we thinking about at this point in time?
- Sanjeev Singhal:** Are you talking with respect to the additional submarines?
- Rohit Natarajan:** Yes, sir.
- Sanjeev Singhal:** Yes, additional submarines we are also not very clear at this point of time. Whether this would be with AIP or without AIP, all the options are open, in fact, because indigenous AIP marine version is still not developed. But at the same time, we understand there would be a certain time by which time we deliver the first of these additional 3 submarines. So, I believe there would be certain options that in case the marinised version of AIP is ready then what would be the scope with integration of AIP and in case the AIP version is not ready then what would be the scope without the AIP. So, these options we believe would be there but the contours of the final contract are yet to be finalized.
- Rohit Natarajan:** Sir, my second question is on the retrofit or maybe life extension program for the old submarines that we have at this point in time. So, all the Sindhughosh class of submarines, I believe lot of them were commissioned, but do you think is there a scope for them to come back to you in terms of the life extension certificate programs like similar order what we have won?
- Vasudev Puranik:** At the moment, we have done MRLC of the first submarine of the SSK class life certification. The second one, as bought up by the chairman; it is already in progress. So, we expect that this 3rd and 4th will also come to MDL only because we have built these submarine and...
- Sanjeev Singhal:** As far as 3rd and 4th is concerned, they were built at MDL.
- Vasudev Puranik:** They were built at MDL. So, it will come to MDL only. So, similarly for the other Scorpene program, there is talk already in progress that we will be doing retrofitting of this office with an AIP during their normal refit that will happen on every submarine, all the six submarines basically. So, this is the plan of flow. So, these submarines will come into a refit after about six years or seven years of their operation in service.
- Sanjeev Singhal:** Considering that the first submarine of Scorpene class was delivered in 19. As per the provisional timelines, we are targeting the refit of the first submarine to be somewhere in the middle of 25.
- Moderator:** Thank you. Our next question comes from the line of Dixit Doshi with Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi:** First question is regarding this submarine in tie-up with TKMS Germany, what would be the size of this project? And secondly, on the Scorpene submarines with the France, the size of that project as well?



- Sanjeev Singhal:** As far as the size of the AIP fitted 6 number submarines for which we have already submitted the price bid on 1st of August as per the AON the cost involved is Rs. 43,000 crores. I would not be able to discuss this, considering that the price bids have been submitted both by Mazagon Dock Shipbuilders Limited as well as by L&T, it would not be appropriate for me to come out with any numbers. I can only say that we expect that the pricing compared to AON would be significantly higher. And similarly, with respect to the additional submarines, as I said the scope is yet to be finalized. So, we are expecting those discussions to start shortly. And what kind of options are there, whether with the AIP, without AIP or both the options are there so the pricing would depend on that. But broadly the database is available both with the Navy as well as with MDL because this is a platform which has been under execution for quite some time. We have already delivered 5 submarines. The 6th one is slated for delivery in March 24th. So, broadly the items and the prices are known, so depending upon the additional scope, this should not be very different.
- Dixit Doshi:** And this Rs. 43,000 crore order where L&T is also competition, is there a split between the two players or whoever wins gets the entire order?
- Sanjeev Singhal:** As per the RFP structure as it stands now, there is no split envisaged, either it is 0-6 or 6-0.
- Dixit Doshi:** And the order which we have received for refit and life certification, this will be executed over how much time?
- Sanjeev Singhal:** Over 33 months.
- Dixit Doshi:** 33 months.
- Sanjeev Singhal:** We have received on 30th of June, the time period as per the contract is 33 months.
- Moderator:** Thank you. Our next question comes from the line of Amit Dixit with ICICI Securities. Please go ahead.
- Amit Dixit:** The first question is one the P75I itself for which you and L&T have submitted the bid. There was another name doing Hanwha or this South Korean company. So, have they also submitted their bid, or is it only two of you?
- Sanjeev Singhal:** No, MDL was trying to tie-up with DSME Korea around a year back when they had shown interest in tying-up with MDL. Subsequently, we understand that DSME Korea has been taken over by Hanwha. And after this takeover, they have withdrawn from the project. So, they have confirmed to us in writing that they are no more interested in the project and accordingly, MDL tied up with the TKMS.
- Amit Dixit:** Okay, so they are no longer involved in the project?
- Sanjeev Singhal:** No.



- Amit Dixit:** Okay. Last time you indicated that there are several other orders for Naval platforms for which you would be bidding. So, one of them was of course the Rs. 36,400 crores Corvette order. So, any update on that?
- Biju George:** The Corvette order, they have not issued the RFP. So, we are expecting by end of this year. So, that is the update on that.
- Moderator:** Thank you. Our next question comes from the line of Dixit Doshi with Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi:** Couple of more questions. Firstly, in this Rs. 232 crore other income, was there any one of like any LD write-back or anything?
- Sanjeev Singhal:** No. As far as quarter one is concerned, there is no LD write-back. In quarter 4 of 22-23, there was one LD write-back of Rs. 173 crores, but that was also part of the revenue from operations.
- Dixit Doshi:** Okay, this quarter there was no write-back?
- Sanjeev Singhal:** No write-back, but just for the benefit of the participants, as far as LD is concerned, this LD has been withheld and levied by Navy on all the submarines which we have delivered. All the five submarines and we have received a refund with respect to the first submarine. So, with respect to other four submarines also we have put up our case to Indian Navy which is under process. And we expect that with time, these also would be refunded.
- Dixit Doshi:** Okay and I think this is around Rs. 600 crore, right, in the last call you have made.
- Sanjeev Singhal:** Yes, approximately Rs. 150 crores to Rs. 175 crores refund for each submarine. So, for five vessels, it would be around Rs. 700 crores - Rs.750 crores approximately or Rs. 800 crores. One, we have already received, so for balance 4 vessels.
- Dixit Doshi:** And last question. So, what you guide is, generally we see the margins considering the other income. Now if I see last year full year, our PBT margin was around 16% and even this quarter it is around 16%. So, just wanted to understand one thing, so as we will move ahead and the project let us say, P15 Alpha Frigates and all those comes at the end of their life in terms of project execution. That time the advances from customers will be lower. What kind of margins, we can sustain on the downside?
- Sanjeev Singhal:** Considering that, this is a revolving kind of a cash balance and we are expecting fresh orders during the intervening period, as of now, we do not envisage any significant impact on the margins, including the other income. In addition, as I have been maintaining that during the execution of a project, we maintain slightly on a conservative side because the cost structure may not be discovered fully. But if a platform gets delivered prior to the contractual date, it definitely has a positive impact on the overall profitability as regards that ship. So, we did deliver two ships ahead of schedule. The third ship is also slated to be delivered ahead of schedule by



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four to five months. So, whenever we are making a delivery prior to the contractual delivery date, what we have observed is there is a definite positive impact on the profitability. So, third ship is also likely to be delivered four to five months early. So, let us see if that effect would be captured either in quarter two or quarter three.

Moderator: Thank you. Our next question comes from the line of Col. Sarjeet Yadav with Mount Intra Finance. Please go ahead.

Col. Sarjeet Yadav: Sir, one question. When we talk about the order book like you said Rs. 43,000 crores, so does that include the cost of the platforms which are going to be there on the frigates? And if that be so, then what is the percentage of those platforms?

Sanjeev Singhal: I did not get you very clearly. Our order book right now is Rs. 39,000 crores comprising of three platforms, Project 15 Bravo, which is approximately Rs. 17,000 crores. Another Project 17 Alpha which is 4 numbers of Frigates, which would be another Rs. 18,000 crores and Rs. 4,000 crores for the last Submarine Project P75. In addition, approximately Rs. 2,700 crores for the MRLC which we have received recently. So, this is the broad breakup of Rs. 39,000 crores.

Col. Sarjeet Yadav: My question was the project includes the cost of the platforms?

Sanjeev Singhal: I did not get it. This is the platform cost.

Col. Sarjeet Yadav: Sir my question was that does the project include the cost of the platforms?

Sanjeev Singhal: What do you mean by platform? The platform is the, project comprises of ships.

Biju George: What we call as platform is the ship itself, so there are the entire residual order book comprises of the equipment cost, to be installed on the platform, yard efforts and own plant usage, so many costing elements. If I understand your question is what could be the percentage of equipment in the residual order book is that your question?

Col. Sarjeet Yadav: Yes. So, equipment like the kind of radars which are going to be there or the weapon platforms are going to be there, does the cost included in that platform?

Biju George: Yes, it includes. It does include that, yes.

Col. Sarjeet Yadav: And what could be the percentage of the.

Biju George : See the shipbuilding is like a construction industry, not like a mass production. So, at every quarter it can fluctuate. But generally, it fluctuates between 50% to 65%. Remaining will be the labor and other.

Biju George: Own plant usage services.



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- Biju George :** Own plant usage services, subcontracting expenditures, all that.
- Moderator:** Thank you. Our next question comes from the line of Rohit Natarajan with Antique Stock Broking Limited. Please go ahead.
- Rohit Natarajan:** So, my question is on the receipt of P17A and the possibility of AoN for NGD, Next Generation Destroyer. Any color on that?
- Sanjeev Singhal:** We expect positive movement in both these projects as far as Next Generation Destroyers is concerned as per the discussions what the information we have is that earlier the discussion was 6 number of Next Generation Destroyer. Now, the number has been increased to 8 in two phases of four numbers and with respect to 17 Bravo, the follow-on ships of 17 Alpha Frigates, there are also positive movement is definitely there. So, we expect the number to be on similar lines, 7 numbers. And MDL continues to be a very strong contender for both these platforms. As well as Destroyers are concerned, nobody else has constructed the Destroyers and towards capability enhancement as informed earlier we have placed an order for a Floating Dry Dock which can accommodate the Next Generation Destroyer. This is a CAPEX costing around Rs. 500 crores. This order has been placed in the month of June.
- Rohit Natarajan:** Sir, just to touch on the Goa shipyard part, any color on what could be their execution target for this year given that they also have a very exceptionally strong order backlog?
- Sanjeev Singhal:** Actually, we do own a 47% equity in the Ship yard, but there is no management control or board representation on GSL, so they operate totally independently. Only the profit figures of Ship yard and net worth have an impact on Mazagon Dock Shipbuilders Limited. But otherwise we are not involved in their management or execution or other details.
- Moderator:** Thank you. Our next question comes from the line of Rahul, an Individual Investor. Please go ahead.
- Rahul:** I just wanted to know that we have such a strong order book. So, do you feel any skill set or do we have the required skill set to deliver these orders on time and execution? And we see that there is a little slip in the revenue. So, we have a strong order book on one hand and there is a little slippage on the revenue front. So, how is that kind of working together?
- Sanjeev Singhal:** I have been explaining this thing yes. As far as the shipbuilding industry is concerned, this is not an industry which can be compared on a quarter-to-quarter basis. In fact what we see is that the company has been growing at a very healthy pace. 22-23, we saw a revenue increase of 35%. Of course that kind of a performance cannot be repeated on a year-to-year basis. But we definitely see a growth of maybe 10% to 12% or higher that picture would emerge better by the end of middle of third quarter, I would say. But we are on the right track and our quarter-to-quarter basis minor slips cannot be taken into consideration.



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Vasudev Puranik: No issues with respect to the skill set or the manpower. We have capacity to build 11 submarines and 10 warships simultaneously. So, we can take 21 vessels simultaneously compared to that right now we have only six ships and 2 submarines with us.

Moderator: Thank you. Our next question comes from the line of Amit Dixit with ICICI Securities. Please go ahead.

Amit Dixit: I have a couple of questions. One is that we have recently developed a midget submarine. So, if you could just throw some light on that, the orders that we expect out of that and the time frame thereof and whether there would be other competitors also for this.

Sanjeev Singhal: This is a research and development project undertaken by MDL, primarily for the purpose of indigenization of submarine. And this would be a multi role submarine, which can be deployed for special operations, as well as for oceanography, as well as for tourist purposes, as well as it can be used in rivers also. We have recently successfully tested the pressure hull. And as per the timelines, we are expecting that this submarine should be testing waters by somewhere end of 24. To our knowledge, we are not aware of anybody else who is right now into the construction of an indigenous submarine within the country. This could be a game changer once successful.

Amit Dixit: It is fully indigenous, everything, all components are indigenous in this?

Sanjeev Singhal: Yes, all components are being indigenized, being sourced through indigenous sources.

Amit Dixit: What would be the cost of submarine?

Sanjeev Singhal: It is evolving. Right now, we will not be committing. But it is a cost which we feel it is the right cost for research and development.

Amit Dixit: The second question is essentially the question of the previous participant. Just wondering that, last time when we started building submarine then it was long time back. Now if this P75I order comes to us and the P75 repeat order, I mean the three submarines that is being contemplated it comes to us. But can we still build 11 submarines simultaneously or our some of the people have retired and therefore we need to search for, I mean, on engineering side particularly do we need to search for more people? And therefore the simultaneous building could be impeded.

Sanjeev Singhal: No, we do not see any such constraints as far as the skill set is concerned. We have a healthy skill set of both executives as well as non-executive staff available. A lot of outsourcing sources have also been developed during the meantime. And in any case, as far as these projects are concerned, of course we continue to maintain that we have the capability and capacity to take 11 submarines simultaneously. But just as a matter of clarification, as far as the additional submarines are concerned we expect that this should be finalized fairly early. Whereas the AIP fitted 6 submarines this would involve certain technical evaluations, certain field evaluation tests at both the places by an Indian Navy both at MDL TKMS and L&T is Navantia Spain. And



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certain discussions and finalization of equipment fit, so this would be a while away. So, in any case, by the time the specifications are frozen, so there would not be, these two orders coming simultaneously, that kind of a scenario is not likely to happen. But yes some overlap would be there for which the yard is quite capable along with the refits and the repairs of the Scorpene Platforms as and when they come.

Vasudev Puranik: Skill set we will not lose because we have a mixed bag of workers. They are permanent and there is on contract. So, as these permanent guys are retiring this contract people are getting inducted as permanent. So, basically there is continuity is there as far as skill sets are concerned.

Amit Dixit: Sir, here just again a follow from here, in 1999 there was the plan that okay we will have some 24 submarines by 2024. And if I really look at it, then only P75, that too 5 submarines are there out of those 24 and the old submarines that we have, I mean, I do not know how much refit we can do to these submarines essentially. So, where I am coming from is that there is an urgent need for us to actually manufacture this submarine. So, in this scenario, you still think that a split in the order is not possible at this stage.

Sanjeev Singhal: Split in the order does not work out technically because there is a technology transfer involved. The RFP has not been designed in a manner where the foreign collaborator would be willing to transfer the technology to two players. It does not work out to be cost effective. So, had the technology transfer not involved then it is a different case altogether but considering the nuances of the RFP and the platform itself we do not envisage any kind of a split is feasible.

Vasudev Puranik: There will be a cost both the collaborative cost will have to say both the sides, actually hike up this project cost quite a lot.

Amit Dixit: The last question from my side, before I turn it to again the queue. Is that there was a media article suggesting that maybe might think of taking some 10 submarines on rent by the time you know diesel-electric submarines again by the time actually we build these submarines under either P75I or P75 extension. Is it true or is it just media speculation?

Sanjeev Singhal: We would not be able to comment on this.

Vasudev Puranik: Because its secret, confidential information. So, I do not think, they do not share it with us. We will not be able to comment. But maybe we can think of such things. But this life extensions which we are doing to the submarine that is actually filling the gap to some extent that in certifying another 10 years. See, the submarines are normally 30 years life. So, giving it another lease, new lease of 10 years. So, that is one way of putting it because the designer always has certain safety margin when he designs. So, that assessment is done after service life is over.

Moderator: Thank you. Our next question comes from the line of Marutinandan Sarda an individual Investor. Please go ahead.



- Marutinandan Sarda:** My question is regarding the topline. So, last year we completed 7,800 approximately the topline what we have delivered and currently.
- Sanjeev Singhal:** No, 7,500.
- Marutinandan Sarda:** And currently we are having unexecuted orders for work around Rs. 39,000 crores, right?
- Sanjeev Singhal:** Yes.
- Marutinandan Sarda:** And I am just assuming that the bid which we have filed where L&T is also participating. If we get that particular project as well, the value will be around Rs. 40,000 crore for that project, right?
- Sanjeev Singhal:** Rs. 43,000 crores is the AON value. I said we are expecting a significantly higher order value.
- Marutinandan Sarda:** Okay, so let say Rs. 45,000 or Rs. 47,000 crores. So, if we combine these two figures, which is the value which we are already having as unexecuted project, Rs. 39,000 crore plus the Rs. 47,000 crore, the ballpark number will be around Rs. 80,000 crores. So, these projects will be executed over what tenure in terms of number of years? It can be a ballpark number I do not expect concrete number, just to get an idea that is what area we can go our topline.
- Sanjeev Singhal:** I will break this into couple of parts, like if you talk of Rs. 39,000 crores, comprises of right now we have 2 ships of 15 Bravo. One we are targeting for delivery this year by September-October and the last ship of 15 Bravo we will be delivering middle of 24 next year. Then another project is there which is 17 Alpha which comprises of four number of Stealth Frigates. We target the first delivery of Frigates in middle of 24 next year and then subsequently 1 ship each year. Our project being the six submarines of P75, which we are targeting for March 24 or maybe early '24-25. With that, this project would be over. So, considering these the existing in addition the MRLC project would be somewhere around '26-27. So, considering this, I see the current book to be exhausted by '28, then including the base and depots spares and the liquidation of guaranteed effects another one year, so by '29. And considering as far as six submarines of with AIP fitted project P75I is concerned, this order placement would take approximately 18 to 24 months. So, taking two years and the build period for the first submarine, I believe the first submarine is required to be delivered in next 6 years and then subsequently one submarine each year. So, that would be a project from today of around 10-12 years. So, you can very safely consider if we are in 23 today by 34-35 if these orders are there, so this would be liquidated by 34-35. In addition, we are also expecting orders from the pie of Next Generation Destroyers as well as follow on with respect to the Frigates that is the 17 Bravo. So, these orders will be in addition to the, what we have discussed just now.
- Marutinandan Sarda:** And what is the value for these orders?



- Sanjeev Singhal:** Next Generation Destroyers, all 8 could be in the range of more than Rs. 80,000 crores and 17 Bravo, we have the existing order which is around Rs. 26,000 crores – Rs. 27,000 crores. So, considering for four numbers and if we consider similar four numbers, Project 17 Bravo, I am told that instead of seven numbers, which was four by MDL and three by GRSE, the 17 Bravo Navy is considering for 8 numbers. So, the total order size was Rs. 45,000 crore in 2015. So, eight years have elapsed, so there would be normal escalation. So, this 8 numbers should be in the range of Rs. 60,000 crores.
- Marutinandan Sarda:** So, hearing all this, I think it will be prudent to assume that we can grow our topline 15% to 20% CAGR over next 10 years.
- Sanjeev Singhal:** Yes, if the order flow is smooth, we are confident that the topline would be growing in a healthy manner.
- Moderator:** Thank you. Our next question comes from the line of Avinash, an Individual Investor. Please go ahead.
- Avinash:** There is a company called Avantel which got an order from Mazagon Dock. So, having won that is it outsourcing that is what I understand. So, will it have any impact on the profit margin?
- Sanjeev Singhal:** As far as outsourcing is concerned, outsourcing is a normal part of our operations. The core operations are being handled directly by Mazagon Dock Shipbuilders Limited, but many of our operations are outsourced. So, that is a part of our execution strategy. So, definitely it does not have any negative impact. But at the same time I am not sure with respect to Avantel the name which you are taking, I do not think we have outsourced.
- Biju George:** Making small orders or something, it is not a major order.
- Sanjeev Singhal:** I do not think any major order has been outsourced to Avantel.
- Moderator:** We will move on to our next question, which is from the line of Satadru Chakraborty with Chakraborty Family Office. Please go ahead.
- Satadru Chakraborty:** Let me start with a couple of bookkeeping questions. The employee benefits expenses, is it fair to say that this is a bit frontloaded in the first quarter because you have annual bonuses that we pay out. And is this generic year-over-year or is this not something which has some seasonality to it?
- Sanjeev Singhal:** There is nothing like front loading the employee expenses in the first quarter, nothing of that sort.
- Satadru Chakraborty:** And then the follow up question that I have also on this is the subcontract costs. This one, I think we had a lot of conversation on that today. So, my question really is, I mean, this cost has been gradually increasing over the last two financial years, which is fine. But is this really strategy



wise the best play that a defense company can do? Because I mean, on the one hand, costs are driven out so profit margins are better, but on the other hand you also have a lot of expertise which probably is not within the company. I just wanted to say on a strategic side, how do you feel or how do you think subcontracting should be done? Should it be more non-technical? Should it be more operational and should the strategy component still stay in house or just how do you think about it in general?

Sanjeev Singhal:

I can assure you as far as all the core operations are concerned they are being directly executed by MDL. And we have been able to manage and deliver the platforms at a faster rate and within time by a judicious mix of what we execute ourselves and what we outsource. So, this strategy is likely to continue, considering that the timelines are being compressed and this is the requirement of the day that the platforms are delivered faster and at the earliest. But at the same time, this does not jeopardize or impact in any way MDL's capabilities or profitability adversely.

Vasudev Puranik:

See, when we subcontract, we know the activity, we have to qualify the subcontractor. It is not that we do not know what the subcontract is doing. We actually teach them how to do it. So, there is no loss of any skills or any knowledge or something. We will be getting it done more cost effective method.

Satadru Chakraborty:

I think the other operational pieces are quite in place. So, I do not have a lot of questions on that. One last question that I had really is on the shareholding pattern. I think the Government of India state right now so MoD is around 84.83% I am not mistaken, there is just a mandate that publicly listed companies have to bring it down to 75%. So, my question really is, is there an exception that we think will happen for MDL or do you in future plan to go for some sort of equity dilution? Or maybe this is too early to ask that question already?

Sanjeev Singhal:

Actually, as far as the CPSEs are concerned, there is a separate ministry altogether and a separate administrative office DIPAM, which takes care of the disinvestments. So, they look at the right time when the disinvestment should take place when further investments should and disinvestment should take place. And in case any exemptions are required, so it is DIPAM who would be processing or who would be advising us on this behalf. So, as a company, we are not concerned or controlling any kind of decision with respect to further disinvestment.

Moderator:

Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Biju George:

Thank you for this opportunity given us to interact and also thank you for all the good wishes and the well-wishing which we have garnered from the market and the investors. Thank you so much.

Moderator:

Thank you, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.