



Premier Explosives Limited Conference Call

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MODERATOR: **MR. SAURABH AMBASELKAR – S-ANCIAL GLOBAL
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Moderator: Ladies and gentlemen good morning and welcome to the Premier Explosives Limited Conference Call hosted by S-Ancial Global Solutions Private Limited. 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 an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Saurabh Ambaselkar. Thank you and over to you sir.

Saurabh Ambaselkar: Thank you. I on behalf of S-Ancial Global Solutions welcome you all to Premier Explosives Limited Conference Call. We have with us Dr. A. N. Gupta – CMD and Mr. C. Subba Rao, CFO of the company. Now I hand over the call to Dr. Gupta, over to you Sir.

A. N. Gupta: Thank you very much Saurabh. Good morning and welcome to Premier Explosives Ltd. investor and analysts' con-call. This con call is organized in reference to the conflict Armament Research report titled "Tracing the supply of components used in Islamic state IEDs" published in February. The report states that seven Indian companies manufactured most of the detonators, detonating cord and safety fuse documented by CAR field investigation teams. However, the report states that there was no illegality on the part of Indian companies as under Indian laws transfer of explosives materials requires license. I would like to further add that PEL never exported any material to Iraq and did not export any material to Syria since 2011-12. Moreover, export to all Middle East countries during FY15 was only about 6% of the total turnover implied limited influence on the overall financial performance and our company's value. I reiterate that PEL is in strict compliance with various laws governing the explosive production, handling, storage and supply. I now open the floor for further discussions.

Moderator: Thank you. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.

Kartik Mehta: Thanks for arranging the conference call because though you have given clarification on the BSE last Friday but this helps. Basically what you're saying is that you have not exported directly to Iraq and Syria since 2011 and overall Middle East exports are accounting to overall 6% to 6.5% of the total revenue of the company.

A. N. Gupta: During the current year, this exports include to Turkey which is a decent country is not involved in the ISIS, it also includes Jordan which is a peace-loving country and trying to make peace in the Middle East. So most of the exports are to these two countries, the present exports are only these two countries in the Middle East. This also includes many other products and not only detonators and detonating fuse but it also includes other products. Now our contention is that in India we have to get an export license before you can export anything from India and for obtaining the export license we have to submit to the Chief Controller of Explosives located at Nagpur a copy of the order received from the customer and also the import license the customer has obtained from their government. So after considering both and

seeing the bona fides of the importer then only the export license is given to the producers. That means we have to be very transparent with them and tell them who is the customer whether he is a trader/importer or he is an actual user and after giving all information including the copy of the order then only the export licenses were given by the Chief Controller Explosives.

Kartik Mehta: In that case right now we are exporting only to 2 countries of the Middle East Turkey and Jordan, there also is it more of trader who are procuring your material or you are directly supplying to some defense entity?

A. N. Gupta: Both are there, in Jordan it is Government of Jordan for JPMC that is Jordan Phosphate Mining Corporation which is owned by the government and that accounts for a larger quantity because as a big mine they use a large quantity of explosives, detonators, detonating fuse, basically they buy explosives and detonating fuse. As far as Turkey is concerned it is going through the traders because storage magazines are made by the traders or manufacturers and they import and then they supply to end users.

Kartik Mehta: That is where the leakage could be.

A. N. Gupta: No. Leakage does not take place there also because in that country also there is very strict regulations on explosives transportation, the import is under police escort that it goes to the godown and when the importer is selling it to some other customer the user they there again it is going under the police escort.

Kartik Mehta: So in that case you are indirectly denying the report wherein your name is published, you have not done any export to any of those ISIS entities directly through you?

A. N. Gupta: Our only one item was found in the CAR and that was exported in 2010-11 to Syria, in Syria it was exported to the Ministry of Syria, the Government of Syria what they call the Department of Defense so it was exported to them, now if during that period 2010-11 some leakage has taken place from the Syrian Defense Authority or some people working under that we will not be able to give any comments.

Kartik Mehta: And from 2011 onwards you have stopped both Iraq and Syria?

A. N. Gupta: Iraq we never exported, there is no question of our stopping Iraq because Iraq was all the time under turmoil.

Kartik Mehta: Iran and Syria you said initially?

A. N. Gupta: No Iran also, we supplied only to Syria and Jordan in that area.

Kartik Mehta: Since 2011 you have stopped?

A. N. Gupta: Since 2011 onwards Syria has not placed an order on us number one, number two none of the shipping lines were also ready to take the material there because Syria was under a lot of political turmoil so we have not exported to Syria also.

Kartik Mehta: Another point coming is that let us say this time you are definitely not in fault at all because you exported to Syria and in turn it was back in 2010 and may be there was a leakage then, so how would you avoid or identify such threats like any other country which could be emerging terrorist hub and maybe we have to identify it very early and stop our supply or else we keep on supplying until our government stops or their government stops so we will keep on exporting based upon the permitted rules and regulations from the government and we will not be deciding anything on our own?

A. N. Gupta: How can you decide you tell me, can you decide today which government is going to be or which country is going to be?

Kartik Mehta: The moment you start reading in the paper that this is in that country more aggressively so then you take a call or you will still be following the rules and regulations?

A. N. Gupta: No as soon as we hear anything in the newspaper or in the news or even from indirect sources that some country is involved in terrorist activity we will certainly stop.

Kartik Mehta: Last question from my side this does not involve any missile related exports and all commercial mining?

A. N. Gupta: It is all total commercial, detonators and detonating cord or explosives which are involved. They are all used in mines they cannot be flown, they cannot be used as a fuel at all, they will explode only. So they are used for breaking rock basically and in this case of misuse what happens is they put it, like in India you find so many IEDs are there, they take it into some container and put some projectiles in that and then explode it.

Moderator: Thank you. The next question is from the line of Abhijeet Lakshikar from L&T Mutual Fund. Please go ahead.

Abhijeet Lakshikar: As far as CAPEX is concerned we although in the last call it was mentioned that it is still not decided as to whether it will be a partnership kind or whatever, but from our earlier communication there could be a foreign tie-up which will be required which will be seeking by our company. In this case since this has become international issue now do you see your partners trying to shy away from our company?

A. N. Gupta: No, it is absolutely not because even CAR has given a clean chit to us so there is no question of anyone shying away, if CAR had given any doubt or any questions, then only the problem can be expected but CAR has given a very clean chit to us that there is absolutely no involvement of the company, so why our partners should shy away.

Abhijeet Lakshikar: So CAR in itself is also not, is it just an investigation agency or how much importance would your partner place on their report although they have given us clean chit?

A. N. Gupta: CAR I think is a respected and international under UN and I think that is the last word on these things, so they investigate thoroughly, they ask various questions if they have any doubt they would come and then call upon us. So there is absolutely no doubt in the minds of our would-be partners.

Moderator: Thank you. The next question is from the line of Sagar Gandhi from ICICI Securities. Please go ahead.

Sagar Gandhi: Have you got any indications or intimations from Government of India that you may have to become more strict or there are some stricter guidelines for exports anything on that line?

A. N. Gupta: No we have not received any information, any questions or any call or anything from the Government of India, there is no communication at all.

Moderator: Thank you. The next question is on the line of Anshuman Dev from ICICI Securities. Please go ahead.

Anshuman Dev: I just wanted to understand the future course of action possible from CAR. After this report what is the kind of actions that you think which may happen for the companies involved or the recommendations that they may give?

A. N. Gupta: We are already given a clean chit saying that there is no liability of Premier Explosives Ltd in this, the report itself as I think quoted and unquoted and put on the BSE, so you can read the report itself, a very clear report, it is not ambiguous report saying as maybe this that and all, no it's a very clear report that there was no involvement of Premier Explosives directly or indirectly into this. It was supplied to the Government of Syria and Mechanical Construction Factory, Syrian Republic Damascus Mechanical Construction Factory Industrial Zone, Al-Qadam Road, with complete details and the copies of invoices we have informed the CAR what we supplied and when, which date, which ship, which invoice number everything we have informed them and we have also informed how we got the payment all through bank. There is absolutely no question, actually a letter was received from them next day we replied to them with all the details. In fact, they appreciated our prompt reply and full information.

Anshuman Dev: Is there any successive reports which are in line for CAR in case if that is the case do you have an idea when that next report will come regarding the continuation of this investigation?

A. N. Gupta: We have no idea and there is no investigation continuing because they have dropped the case.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

- Saket Kapoor:** I missed the initial commentary, would be nice on your part if you could just for the purpose of repeating?
- A. N. Gupta:** Beg your pardon please.
- Saket Kapoor:** I have missed the initial commentary from the management just for the benefit of repeating can you just highlight on the CAR reports once again?
- A. N. Gupta:** CAR report has completely relieved our company from any responsibility in this, because the material was supplied to the Government of Syria, Mechanical Construction and it was supplied in the year 2010-2011 and if you want me to read the report I can read it.
- Saket Kapoor:** No thanks. Just coming to your major clients have been Coal India and I think their guidance for production in numbers and giving also the entire ballpark how are they going to achieve it, what kind of business are you looking to garner from them and how are the prices of the material being going forward?
- A. N. Gupta:** Coal India as you can see from the reports coming from the government, their production has increased manifold, they are expecting about 6 % to 7% increase every month and by next five years' time they are expecting the production will become double. At present 500 million to 1 billion tonnes. So coal requires explosives and also accessories detonating fuse and the detonators so their requirement is going to increase same way 6% to 7% on monthly basis if it does increases it will be very good but it will not continue to, initially it may as you are seeing now that production is increasing but after some time there would taper off and we expect that it should be at least about 15-20% per year. Then after that they will have to get some additional equipment and additional manpower and all that, but we certainly think that Mr. Goyal is doing a good job and he will live up to his promise of doubling the production in the next five years' time. So certainly our business with Coal India is likely to increase.
- Saket Kapoor:** What portion of the business are you garnering from Coal India for last two years and how that can be current year?
- A. N. Gupta:** Current year we have got 17,000 tonnes against 13,000 tonnes of the previous year.
- Saket Kapoor:** What is our total business volume, of the 17,000 what portion is from Coal India?
- A. N. Gupta:** I'm not prepared for that.
- Saket Kapoor:** Just wanted to understand how well our company is positioned going forward because of the development with respect to Coal India? I can get it off-line from the team. Just wanted to understand both in open cast as well as underground mines the same amount of explosives are required or is it the change in the technology the dependence of explosives also changes?
- A. N. Gupta:** It certainly changes an underground coal mine you require more explosives particularly detonators you require many more detonators in underground coal mines and roughly I can tell

you between 1 detonator per tonne to 1.2 detonator per tonne is required in underground coal mines. In open cast mine very few numbers of detonators are required and explosives wise also you require $\frac{1}{2}$ a kg of explosives per tonne of coal in underground coal mine, in open cast it will be much less, it will be approximately you will get something like 2 cubic meter of rock and about 6 cubic meter of coal from every kilogram of explosive.

Saket Kapoor: So to dwell on the point once again, where is this growth coming from Coal India, is it the opencast or the underground mine that they are going with the production, they have made out the trajectory so where is the growth coming from, which type of mines will be coming from?

A. N. Gupta: Most of the growth will come from opencast mine because, opencast mine takes less time to start and make operational, an underground coal mine the gestation period could be something between 3-5 years whereas opencast mine it could be between 1-2 years' time. Underground coal mine productivity is very low, you cannot get 1 million tonne from underground coal mine while opencast mine you can get 1 million tonne easily, so it is certainly going to be more from opencast mine and the less quantity from underground coal mine.

Saket Kapoor: My last question is with regarding TAN being utilized, in explosives what portion of tan is needed in the entire mining operations what portion is TAN and other explosives?

A. N. Gupta: What do you mean by TAN?

Saket Kapoor: Technical Ammonium Nitrate

A. N. Gupta: This is the first time I heard the word TAN, normally we hear ANFO. ANFO is used in mines where there is no water, because ammonium nitrate when wet becomes ineffective or it becomes useless so that is why every mine whenever there is an opportunity and there is a dry season we use ANFO otherwise they use slurry or emulsion explosives.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.

Manish: I have only one question, do you believe going forward after this CAR reports the government can restrict the exports from India or maybe like they curtailed some of the countries some of the countries going forward India will not export to that country going forward?

A. N. Gupta: I doubt very much because there is no fault of the government or the fault of the explosive manufacturers of India. Because if you see the total report of CAR there are at least 16-17 countries from where the parts have been involved in the making of these explosive component and some of them coming from USA, China, Turkey, Romania, Belgium, Netherlands, UAE, Iraq, Brazil and Vietnam, UAE, Yemen, Iraq itself and UAE number of them, this is not a complete list there are many which are repeated here so you cannot ban export of things from everywhere just because one detonator has been used for making an IED that way if you do I think every explosive company and mobile manufacturers, because you have not seen that,

every IED requires a mobile would be banned. So this is not possible to do that, until unless there is a linkage which you can that this company has directly supplied or they have certain sympathies with ISIS or something it is very difficult to say that. The mobile which was used in one of them could have been supplied by you or by me or by my CFO sitting here. Now the cable how many cable manufacturers you will confiscate or stop them to supply to and which part of the country from anywhere can move to any other place.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: There are two types of products involved one is cord which is about 6 million meters and the other one is plain detonators?

A. N. Gupta: This quantity of 6 million numbers could not have gone to the hands of ISIS the entire lot, 6 million detonators will make 6 million IEDs. Can you imagine what will happen if 6 million IEDs were floating around? These are the total numbers which are sent to that customer, customer probably, again the blasting is done at the end it by a man, maybe that man had some sympathies with ISIS and he has given one or two detonators to them. If entire 6 million was given to them I think you and me everybody should be sitting in a steel room praying that it doesn't explode around. The maximum leakage takes place at the end use where there is no account because after the explosion it gets into thin air, so at that point somebody has leaked one or two detonators or some cord to somebody and that was found. Many were exploded some were found, when it is found they take a thorough investigation and try and find then trace it back and if they find that there is a mala fide intention then they would come and put some strictures otherwise it's a general course of business. You cannot stop road making, you cannot stop tunneling, you cannot stop making canals just because there is one IED found in that area, there will be no progress, there will be no coal mining, there would be no iron ore mining, there would be nothing. Whole world will come to a standstill.

Kashyap Jhaveri: Second question is that in that report somewhere in the report where some of the other companies from India are also mentioned, the report says that the report is not able to sort of document the full chain of custody of these items it says that in the absence of the serial batch and lot numbers and manufacturing dates it is not able to document the full chain of custody what exactly do they mean?

A. N. Gupta: As I was telling you the production and transport and storage and sale of these explosives is all documented, so for traceability when something is produced we give it a batch number, we cannot give the serial number because they are in very large quantities so we give batch number, a batch may consist of say 10,000 numbers 1000 numbers depending upon the product or 1000 meter. So that batch number and the date of production that is the one which can be used for tracing the material back to the production and to the factory. So some of them are recovered without the batch number and they cannot trace it back this is what is mentioned there. The batch number and the date does not give exactly full address and all that but it helps. As soon as they told us the batch number we could find out that this material was made in such

and such year and it was supplied to such and such party. If we could not give any batch number to us then in that case we could only say that during that period if it is found in that area we have supplied in that area to this country.

Kashyap Jhaveri: In terms of for topline this would be a very small number?

A. N. Gupta: It is very-very small. Extremely small and that statement making because the value of the company has gone double, value of the company is gone double because of the performance and because of the new product we have added to our chain.**Kashyap Jhaveri:** What could now be the next outcome of....?

A. N. Gupta: This is unnecessarily blown out of proportion you all know you are in business there is sensationalization of this by some newspapers media, print media.

Kashyap Jhaveri: What could be the next, does this report hold anything in the legal parlance all which is something prepared by an outsider?

A. N. Gupta: I do not think so.

Kashyap Jhaveri: You mentioned somewhere in your comments that this particular organization of this report has already highlighted that this was supplied to somebody else and they found the place, I cannot find that in the report would you be able to highlight or is it a separate statement which they had given?

A. N. Gupta: It was supplied to the list of customers to whom we have supplied that is given, it is found somewhere else somewhere in Iraq.

Moderator: Thank you. The next question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.

Kartik Mehta: Just from the understanding point of view what is the full form of this CAR?

A. N. Gupta: It is Conflicts Armament Research.

Kartik Mehta: Okay, this is belonging to which country?

A. N. Gupta: Based in Europe. Objective is tracing the supply of components used in Islamic state IEDs. This is a key mix of 51 companies and 20 countries.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to Mr. Saurabh Ambaselkar for his closing comments.

Saurabh Ambaselkar: I thank all the participants and management of Premier Explosives Ltd. Thank you sir.

A. N. Gupta: Thank you very much.

Moderator: Thank you members of the management team. On behalf of S-Ancial Global Solutions Private Ltd, that concludes this conference. Thank you for joining us and you may now disconnect your lines.