



“Premier Explosives Limited Q1FY17 Earnings Conference Call”

August 01, 2016



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Premier Explosives Limited Q1 FY17 Earnings Conference Call hosted by S-Ancial Global Solutions. 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. Milan Bavishi. Thank you and over to you, sir!

Milan Bavishi: Thank you. Good afternoon, everybody. Welcome to Premier Explosives Earnings Call to discuss First Quarter Results. We have with us Dr. A. N. Gupta, Chairman and Managing Director and Mr. C. Subba Rao, who is the CFO. May I request Dr. Gupta to take us through his initial remarks and financial highlights subsequent to which we can open the floor for Q&A session. Over to you, sir!

Dr. A. N. Gupta: Thank you, Milan. And good morning to everyone who is on the online. I welcome everyone to the First Quarter of 2016-2017 Financial Year Result Conference Call of Premier Explosives Limited.

I am happy to share with you that Premier has achieved highest ever first quarter turnover at Rs. 47.3 crores during the year. Further it is interesting to note that the first quarter is usually about 20% of our annual turnover.

We have already shared the Results presentation with you so, I will be quick in sharing key financial numbers and leave more time for question-and-answers.

For the first quarter the turnover growth was 25.7% YoY. Operating margins increased by 108 basis points year-on-year to 9%. Profit before exceptional items and tax showed a strong growth of 83% to Rs. 2.57 crores.

The last year, before exceptional items, the profit was Rs. 1.4 crores and net loss stood at Rs. 1.47 crores after the tax. Last year we had shown some loss in the year.

First quarter is normally only 20% of the final total year and this gives us a confidence the we will be able to achieve our targeted turnover Rs. 230 crores. Recently, we achieved a milestone by delivering 1,000th grain to Akash missile project. We had a ceremonial dispatch of the grain which was attended by many scientists but most important the Scientific Advisor to Raksha Mantri Dr. Satheesh Reddy was the Chief Guest and the vehicle carrying the thousandth grain was flagged by none other than Chairman Bharat Dynamics Limited -- Mr. Uday Bhaskar on 9th of July.



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In his remarks, the Scientific Advisor mentioned, which is very important, that it is not number thousandth grain, but it shows that the company had been consistently and sustainably able to maintain the quality and there was no rejection in the whole lot. This really is very encouraging for the company and we hope that we will keep on getting on such milestones.

There is distinct pick-up in the activity for explosives business also because we got higher order from Coal India Limited and also from Singareni and there was a revival of infrastructure sector.

We have received a license from the DIPP to produce site mixed explosives which will further increase our production. We whole-heartedly support the “Make in India” initiative by our government. We have incorporated a subsidiary called PELNEXT DEFENCESYSTEMS for manufacture of ammunitions while several other things for this business are under planning stage. We will be able to share the details in the coming quarters.

The total order book as on Q1 FY17 is Rs. 287 crores, out of which about Rs. 100 crores is defense.

With this, I now open the floor for question-and-answers. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have first question from the line of Abhijeet Vara from Sundaram Mutual Fund. Please go ahead

Abhijeet Vara: Sir, I have a couple of questions. Firstly, if I look at the Q1 turnover, the explosives division contribution is higher than defense; despite this the margins are improving. I am talking about year-on-year. Does that mean the pressure in Coal India contracts has started coming down? Pricing pressure has started coming down? Could you please give us a color on that?

Dr. A. N. Gupta: Would you be asking all the questions and I answer or one by one?

Abhijeet Vara: Sure, I will ask...

Dr. A. N. Gupta: No, I can answer one by one that is easier for me because (otherwise) I have to remember the questions also. Your questions is very good, sir. Our sales to Coal India has certainly improved as I have told in my opening remarks and we have been able to import the main raw material ammonium nitrate from abroad and the price for that ammonium nitrate is lower than the locally available ammonium nitrate; so, that shows healthier growth in (margin from) domestic commercial sales.



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- Abhijeet Vara:** So, how is the trend sir going forward? Last year we heard that the pricing in the Coal India contract was very aggressive and the margins generally were under pressure. How is it this year?
- Dr. A. N. Gupta:** See it was certainly true, because in the main subsidiary which is Singrauli which is Northern Coalfields, prices were lower by 10%. But to take care of that lower prices we went around and found better sources of ammonium nitrate which took care of the lower prices. The quantity is larger, so our overheads are spread over and because of that domestic sales also showed better performance.
- Abhijeet Vara:** So, can we take this trend of improvement in margins to go forward for the next few quarter as well,
- Dr. A. N. Gupta:** Sure.
- Abhijeet Vara:** Okay, sure, sir. Sir, my second question is with the current gross block. What can be turnover which can we achieve for explosives as well as defense?
- Dr. A. N. Gupta:** See, we have kept our target as Rs. 230 crores for the current year which is about 25% higher than the previous year and we are very confident of achieving that turnover and we have made some debottlenecking and some backward integration, for that we have already taken a loan of Rs. 30 crores, that is just now signed and with that in the internal accruals we would be able to reach that figures, but....
- Abhijeet Vara:** Sir, the loan of Rs. 30 crores is three-zero?
- Dr. A. N. Gupta:** Three-zero, Yes.
- C. Subba Rao:** Sorry, CAPEX is Rs. 30, loans is 23.
- Dr. A. N. Gupta:** Yes, total is Rs. 30 crores.
- Abhijeet Vara:** Okay. And what will be this fiscal sir, this Rs. 30 crores facility?
- Dr. A. N. Gupta:** This is for backward integration and increasing / debottlenecking of certain products, so that we can achieve higher production targets in the domestic as well as in the exports.
- Abhijeet Vara:** No, my question was whether this will be defense related or the explosives related?
- Dr. A. N. Gupta:** Both, it is a combination of both.
- Abhijeet Vara:** Okay. So, how much can your turnover potential at optimal level increase sir, with the new capex coming up, capacity coming up?



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- Dr. A. N. Gupta:** See, we have taken another as I told you initiative of having a 100% subsidiary under which we will be taking expansion in defense which will give a results in 2018-19 and there we will require a CAPEX of about Rs. 100 crores.
- Moderator:** Thank you. We have a follow-up question from the line of Abhijeet Varafrom Sundaram Mutual Fund. Please go ahead.
- Abhijeet Vara:** Sir, what is the plan for this Rs. 100 crores CAPEX, I mean do you plan to raise Rs. 100 crores it is certainly large amount compared to the current balance sheet size?
- Dr. A. N. Gupta:** Yes, this Rs. 100 crores we have not yet finalized our plans, but it would be by raising equity as well as the loans.
- Abhijeet Vara:** And this subsidiary as of now 100% subsidiary?
- Dr. A. N. Gupta:** Yes, presently is 100% subsidiary.
- Abhijeet Vara:** Okay. Sir, you said this will be targeting ammunitions, that will be the major product.
- Dr. A. N. Gupta:** Correct.
- Abhijeet Vara:** And both for domestic as well as export market?
- Dr. A. N. Gupta:** Initially domestic for the "Make in India" projects and then if we are able to meet the entire requirement of the current domestic then we will certainly try to export.
- Abhijeet Vara:** Okay. Sir, any technology tie-up you already have sir, for this particular project?
- Dr. A. N. Gupta:** We are in the process of tying up and which is quite close probably end of September we will have a total tie-up in place. This would be for production of Bi Modular Charge System as well as some of the ammunitions, may be some rockets too
- Abhijeet Vara:** All of this will be in the subsidiary itself? Bi Modular Charge System, ammunitions as well as rockets?
- Dr. A. N. Gupta:** Rocket can come earlier because there is a RFP raised by Indian Air force for a 70-millimeter rocket which is normally fired from Helicopters and the quantity is large. So we are certainly going to participate in that. It depends upon how fast Air force can finalize the order.
- Abhijeet Vara:** Sir, with the current facility whatever we have and the approvals you have in place, what will be the potential for you in defense over the next couple of quarters? The order book has been stable around Rs. 70 crores to Rs. 90 crores, now it has year-on-year if I see it has come down



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marginally from Rs. 90 crores to Rs. 70 crores so, what is the outlook with the current whatever product approvals you have in the facilities you have got licensed from the authority?

Dr. A. N. Gupta: In the second quarter, we are going to add-up three if not at least two more products to our pie of defense items one of them will be sustainer grain for Akash for which the order is there but there have been some delays in getting approvals from the quality assurance department but this is all through now and probably from next week itself, we will be starting delivers. Number two would be the order which we have already received for Astra and number three would be the MRSAM, which is Medium Range Surface to Air Missile and it is to note that, both Astra and MRSAM are proprietary of Premier we have developed composition for both.

Abhijeet Vara: Any numbers you can share sir, what can be the potential for Astra, MRSAM separately?

Dr. A. N. Gupta: Let it start, I think we can then share the numbers, defense supply of both these depends on the supply of FIM that is free issue materials that is the casing from the buyer that is BDL. So, if there is a supply of casing as they promise we will be able to do the higher numbers.

Abhijeet Vara: In both the Astra and MRSAM will be supplying the propellant?

Dr. A. N. Gupta: We will be supplying the propellant, yes.

Abhijeet Vara: As of now, not the sustainer, right, only the propellant I believe.

Dr. A. N. Gupta: Sustainer and propellant, I do not think you understand, sustainer is also a propellant but sustainer is applicable only for Akash. For MRSAM there are two motors P-1 motor and the P-2 motor and both of them are there for us. Astra also has got this is Mark-1 which has got only one motor and that propellant has been our first propellant which we developed and supplied to them in 2006. Now only they are coming for induction.

Moderator: Thank you. Next question is from the line of Arul Karthik from KarvyStock Broking. Please go ahead

Arul Karthik: Actually, I would like to know the average ammonium nitrate prices for the current quarter gone by?

Dr. A. N. Gupta: Well, I cannot give you the number, but certainly we imported at lower price than what is available in the country.

Arul Karthik: Okay. It should be like less than 10% from the domestic prices or like 15%.

Dr. A. N. Gupta: Almost.

Arul Karthik: 10% to 15% I can assume, sir.



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- Dr. A. N. Gupta:** Yes.
- Arul Karthik:** All right, sir. And how is the detonator margin sir?
- Dr. A. N. Gupta:** See every import we make we have to negotiate the price, for sometimes the price is \$265 or depending the availability market and supply and demand situation. So, sometimes it is lower than that so, we cannot give a number because every import has different price.
- Arul Karthik:** And this \$265 the benchmark number you told like does it includes of logistics cost like factory landing price or like port price?
- Dr. A. N. Gupta:** This is the prices landed at the port, CFR.
- Arul Karthik:** All right. And how is the detonator market looking sir, prices have revived demand is looking good.
- Dr. A. N. Gupta:** Well it was good last month but current month again the prices are dropping because the monsoon season has started as you know these detonators are used in infrastructure as well as in mining, both the activities get effected by the monsoon. So, right now it is down but we hope that with the pick-up in the mining as well as infrastructure activity from say October onwards the prices will be better.
- Arul Karthik:** From October onwards they will recover?
- Dr. A. N. Gupta:** Yes.
- Arul Karthik:** Okay. Sir, another thing with regard to NHN IPR, have we filed the patent for that?
- Dr. A. N. Gupta:** Yes, the patent application is in the process. Probably in the final stages in India. We have also filed it abroad in Europe and there again it will take another one year. The patenting process is very long and very slow and there are number of patents which are in the queue. So, when we talk to our patent attorney, he says that two years back whatever filed are still yet to be taken up for the scrutiny so, we have to wait.
- Arul Karthik:** Meanwhile any monetization plan of this patent application or like technology sharing with other partners especially for NHN compound?
- Dr. A. N. Gupta:** We have already sold our technology to one party in USA and then I think our cost has been already been recovered. So, whatever we can sell, it will be a positive....
- Arul Karthik:** And sir, is it possible to give a number on that?
- Dr. A. N. Gupta:** No, I do not think so,



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- Arul Karthik:** Okay, I understood. Sir, with regard to Pinaka orders did we receive any orders for Pinaka 1 or Pinaka 2 something like that even, if it is on trial basis?
- Dr. A. N. Gupta:** No, not at all. Whatever we have received we have already executed and Pinaka 1 it become almost like a monopoly of Ordnance factory Itarsi and Pinaka 2 is still to be inducted.
- Arul Karthik:** Even we do not have educational orders also for Pinaka 2?
- Dr. A. N. Gupta:** Pinaka 2 we got the order of 50 odd numbers but we delivered that and we received all the payments and all of that.
- Arul Karthik:** Sir, with regard to Akash we have got approval for both booster and sustainer grains and of the Rs. 72 crores order what could be the Akash's composition?
- Dr. A. N. Gupta:** Difficult to say because whatever order is there every day almost we are dispatching so it is not a static number.
- Arul Karthik:** Okay, not a problem, sir. Sir, the debottlenecking exercise that you said on explosives does it form part of curing facility that you are talking about for missiles?
- Dr. A. N. Gupta:** One of them is that yes, you are right. One curing cabinet we are putting in. But mostly it is for the production of detonating cords for which we are getting a lot of exoert enquiries, yes.
- Arul Karthik:** Okay. This is for cords also.
- Dr. A. N. Gupta:** Yes.
- Arul Karthik:** All right, sir. And sir, with regards to the Agni Missile, do we have any order that is coming from defense agencies?
- Dr. A. N. Gupta:** Yes, certainly we have order for another four.
- Arul Karthik:** Okay. And does it include anything beyond Agni-III or Agni-IV, Agni-V?
- Dr. A. N. Gupta:** No we are doing only the one which goes a second stage in Agni-II and Agni-IV.
- Arul Karthik:** Agni-II and Agni-IV.
- Dr. A. N. Gupta:** Yes, that is second stage, small stage. This is not the major one. Major ones are all made by the advance systems labs, solid fuel complex.
- Arul Karthik:** All right, sir. Sir, and with regard to the new contract that we are expecting from ISRO for like using our facility. now we are in the service and maintenance contract, so that we were like



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expecting some production also in our factory. Can you throw some light on that, what will that we will be doing for ISRO?

Dr. A. N. Gupta: Okay. You see if that order comes through which is expected any day then it will be the strap on motor. If you have seen the profile of launch vehicle there are six small motors which are connected at the bottom, three one side three on the other side. These are called strap-on motors because they strapped on to the main motor and there the first two gets ignited and after doing their work they are discarded and they fall off from there. It will be one of them.

Arul Karthik: It will be one of them. And sir this is PSLV or GSLV?

Dr. A. N. Gupta: It will be for either of the two.

Arul Karthik: And any size of the opportunity that we are trying to capture, any number on this particular contract?

Dr. A. N. Gupta: You know the requirement is quite large and we are also taking action for the Rs. 100 crores which also includes and some augmentation in the capacity to take more orders from there, it will be much more than what we can make now.

Arul Karthik: Okay. Sir, with regard to the composition for these rockets, do we have our own composition or like is ISRO's composition?

Dr. A. N. Gupta: No, it will be ISRO composition. It will be a one to one replacement rather than something which we can put, we cannot even alter anything.

Arul Karthik: Fine. And second thing like with regard to the relationship with ISRO, we have more than 10 years of relationship with ISRO and with regard to maintenance and the service. And is there any competition growing up in this space?

Dr. A. N. Gupta: Not right now, I mean but you never know.

Moderator: Thank you. Next question is from the line of Aditya Devya, Individual Investor. Please go ahead.

Aditya Devya: Sir, I had just a couple of questions, what is services part of our order book of Rs. 287 crores?

Dr. A. N. Gupta: The services is about Rs. 30 crores.

Aditya Devya: Okay. And sir, what will be the CAPEX for this year and next year?



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- Dr. A. N. Gupta:** Capital expenditure, we have already taken up Rs. 30 crores from our internal accruals and loans from the bank and we hope to do another Rs. 100 crores CAPEX probably for the current year and next year as you rightly said.
- Moderator:** Thank you. We have follow-up question from the line of Abhijeet Varafrom Sundaram Mutual Fund. Please go ahead.
- Abhijeet Vara:** Sir, in the revenue target of Rs. 230 crores, how much will be defense portion sir, you are targeting for this year?
- Dr. A. N. Gupta:** We are trying to go about 40% to 42% in the defense.
- Abhijeet Vara:** 40% growth?
- Dr. A. N. Gupta:** No, 40% of the total turnover.
- Abhijeet Vara:** Total turnover.
- Dr. A. N. Gupta:** Yes, it will be a little higher than that because presently it is about 15% or 16%, so from there we want to take it to 40%
- Abhijeet Vara:** Right because I think if you look at 40% of Rs. 230 crores it will be about Rs. 90 crores first quarter was only Rs. 7 crores and the order book is Rs. 72 crores. Would you be able to make up in the remaining three quarters because as of now only Akash and Agni are driving, MRSAM and Astra are yet to start?
- C. Subba Rao:** No, when we see actually defense we are including the services also because that is also part of defense.
- Abhijeet Vara:** The Rs. 30 crores order book in services?
- C. Subba Rao:** Yes, that also, I mean out that Rs. 12 crores to Rs. 13 crores will come from services in a year.
- Abhijeet Vara:** Okay. But still about Rs. 70 crores - Rs. 75 crores of your defense would be...
- Dr. A. N. Gupta:** Exactly, our existing business is continuing or growing because BDL is asking for more and more numbers of booster grain and also sustainer grain in addition to that there are small components which we have to supply and we are going to quote for that Air Force order and if we will get that it will be much larger.
- Abhijeet Vara:** This Air force order is rockets you mentioned?
- Dr. A. N. Gupta:** Yes, 70 mm rockets.



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- Abhijeet Vara:** Do you already have the facility sir, for making these rockets because that was I thought that will come up in the subsidiary which you are targeting by 2018 end or 2019.
- Dr. A. N. Gupta:** We can do it from the present facilities. Our present facility is not fully-utilized.
- Abhijeet Vara:** Okay. So what will be the optimal utilization level sir, in the current facility? How much can you go in the defense, is there a number you can share?
- Dr. A. N. Gupta:** It is not possible, if we do not get the order it will be zero. If we can get order it can be total 70,000 numbers they require. So let us see how many contestants are there and how they distribute and what is the price and it is yet to be quoted. The last date is end of August.
- Abhijeet Vara:** Sure. And sir, there was one press release sometime in June about acquisition of one Premier Wire Products Limited, what was the rationale for the acquisition?
- Dr. A. N. Gupta:** This is also backward integration because this wire is used for making detonators.
- Abhijeet Vara:** And now, as a part of this Rs. 30 crores you are planning to put up more of this backward integration?
- Dr. A. N. Gupta:** This present Rs. 30 crores is mostly backward integration and debottlenecking.
- Moderator:** Thank you. Next question is from the line of Kalpesh Guthi from Veda Investments. Please go ahead.
- Kalpesh Guthi:** Can you repeat how much CAPEX we have plan for next two years?
- Dr. A. N. Gupta:** About Rs. 100 crores.
- Kalpesh Guthi:** Okay. Are we planning to fund these Rs. 100 crores CAPEX via QIP or something by diluting equity?
- Dr. A. N. Gupta:** Right now, we have not made up our mind but when the opportunity comes then we will plan it, yes.
- Kalpesh Guthi:** But for this year?
- Dr. A. N. Gupta:** In the current year, yes.
- Kalpesh Guthi:** So for FY'18, we will likely to come out with some issue, right?
- Dr. A. N. Gupta:** Which one?



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- Kalpesh Guthi:** We will come out with some equity issue to fund our CAPEX.
- Dr. A. N. Gupta:** As I told you we have not yet finalized it will be partly equity, partly term loans and partly our internal accruals and we will share the numbers as the time approaches. We will certainly take advise from all of you.
- Moderator:** Thank you. Next question is from the line of Gurudutt Kamath, Individual Investor. Please go ahead.
- Gurudutt Kamath:** I have a couple of questions, one on the ammunition subsidiary. Do you think this CAPEX of Rs. 100 you are planning towards that and if yes, what is the opportunity size you are looking for in that subsidiary?
- Dr. A. N. Gupta:** This subsidiary we have formed only for taking the defense products. So that there can be sort of, so that it gets concentrated and attention by the management and that would be for ammunitions including BMCS, so, once it comes into production and there are RFPs and then we quote for it and all that and then we could share the numbers.
- Gurudutt Kamath:** Okay. The second question is on the margin side sir, I see that I think you had mentioned that it can be upward or little upward of 10% with currently 9%. Do you see that may be over a period of couple of years or may be three years going in higher side of the double-digit like 17% to 20% also, I know you would like to do that but what is the real sense you are getting from the defense orders?
- Dr. A. N. Gupta:** Probably current itself it should touch 10% and next year it should be better.
- Gurudutt Kamath:** Sir, as a follow-up to I remember about couple of quarters back, you had mentioned that there was some kind of discussion from Defense Ministry to indigenize the ammunitions part, I think the subsidiary is a follow-up probably; because I think only Solar and Premier has the license for the ammunition anything which has happened because I see no tenders floating around for the ammunitions so there is no visibility as far as ammunitions part is concerned from the government.
- Dr. A. N. Gupta:** See recently there had been two tenders - one is by Ordnance factory Nalanda for combustible cartridges which is also part of ammunition So, there is something certainly and expected that there would be a tender for 40-millimeter ammunition so these are things which are moving.
- Gurudutt Kamath:** Sir, one last follow-up question to that is any opportunity size you envisage in this ammunition area in terms of next one year or two years maybe it may be for all this three like Premier, Solar and Ordnance facility, what might be the market opportunity overall?



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- Dr. A. N. Gupta:** It is difficult to give a forecast number but we hope that it will be substantial. See when the ammunitions are talked about, the tenders are for things like 1 lakh numbers or 2 lakh number or may be more. They are not bought in twos and fours and tens, they are bought in lakhs. So, the opportunity if we are ready by that time, could be in large numbers.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Milan Bavishi for closing comments, over to you, sir.
- Milan Bavishi:** I would like to thank Dr. Gupta and Mr. Rao and all the participants for joining us on the call today. Thank you. Good bye.
- Dr. A. N. Gupta:** Thank you. Good bye, Milan.
- C. Subba Rao:** Thank you.
- Moderator:** Thank you very much, sir.
- Dr. A. N. Gupta:** Welcome.
- Moderator:** Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.