



“Premier Explosives Limited Q4 FY 2016
Earnings Conference Call”

May 25, 2016



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Moderator: Ladies and gentlemen, welcome to the Premier Explosives Limited Q4 FY2016 Earnings Conference Call, hosted by S-Ancial Global Solutions. As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. If you should you need assistance during this conference, please signal an operator by pressing "*" and 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. Over to you Sir!

Saurabh Ambaselkar: Thank you. I on behalf of S-Ancial Global Solutions welcome you all to Premier Explosives Limited Q4 & FY2016 Earnings Conference Call. We have with us Mr. T.V. Chowdary – Executive Director and Mr. C. Subba Rao, CFO of the company. Now I hand over the call to Mr. C. Subba Rao for opening comments. Over to you Sir!

C. Subba Rao: Thank you Saurabh. Good afternoon everyone. I welcome you all to fourth quarter and financial year 2016 results conference call of Premier Explosives Limited. I will start with quarterly highlights first.

The net sales for the fourth quarter stood at INR.587.2 million that is an increase of 39.1%. The company's operating profit for the quarter was at INR 69.4 million that is an increase of 61%. The operating margin during the quarter was 11.8% that is an increase of 161 basis points compare to last year. The profit after tax was INR 34 million that is 68.2% year-on-year increase. PAT margin grew by 100 basis points to 5.8% in the fourth quarter.

Now I will come to the full year figures. Full year sales for the year stood at INR 1,849.9 million that is 23.7% year-on-year. The company's operating profit for the year was INR 176.1 million that is an increase of 40.4%. The operating margin during the financial year 2016 was at 9.5% an increase of 113 basis points year-on-year. Though operating profit was higher, because of exceptional items that is VRS of INR 397 million expenditure, net of INR 110 million that is a profit of sale of land after these exceptional items, the PAT was INR 56.7 million which is a static compared to INR 53.2 million last year.

For the full year revenue from explosives business was at INR 307.3 million that is 21% increase. Defense business increased by 49% to INR 371.8 million and services growth INR 161.2 million that is a marginal growth of 4%.

The order book as of now is totally INR 2,260 million, breakup of this is defense is INR 700 million explosives is NR 1,290 million, services INR 270 million. In the month of



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March the Ministry of Defense unveiled the defense procurement procedure 2016 at Defense Expo. As the policies are in place with effect from 1st April 2016 and the things are clearer now we feel this would help the defense sector in the long run.

Thank you. We have with us Mr. T.V. Chowdary who is our Executive Director currently and who is designated as Deputy Managing Director that would be effective from July 1, 2016.

T.V. Chowdary: Good evening ladies and gentlemen this is T.V. Chowdary from Premier Explosives.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Kashyap Zaveri from Capital 72 Advisors. Please go ahead.

Kashyap Zaveri: Thank you very much Sir. Congratulations for good set of numbers. My first question is on employee cost if you look at quarter-on-quarter basis in the previous quarter adjusted for about 75 lakhs of this bonus provisions, employee cost has gone up about 10% quarter-on-quarter we understand from the previous conference call that there is enough probably capacity in place in terms of employees. So what explain this jump of 10% Q-on-Q.

C. Subba Rao: You are asking about between INR 841 and INR 1,089.

Kashyap Zaveri: I am looking at in the previous quarter employee cost?

If we compare even March-to-March 8.4 Crores has gone up to about 11 Crores so is this to do with have we taken more employees on role or is this because of any revision in salary or is there any one-half in this number of 10.9 Crores.

C. Subba Rao: These are all usual things except further some of the year end provisions for the gratuity, leave encashment and director's encashment of leave so those are the amounts but otherwise they are all normal costs only.

Kashyap Zaveri: What would be the number of provisions in this quarter, the provisions on leave encashment and if you have that number?

C. Subba Rao: That will be out of 841 the increase is something, we have gratuity of 44 lakhs bonus of 69 lakhs and encashment of leave of 26 lakhs and the balance about some increase in the



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production cost and of course totally it will coming into about 28%, 29% of it out of that to 12% to 15% would be annual increments itself.

Kashyap Zaveri: What could be a total gross debt on book? That would be something, which is included in current liabilities also right the current maturity of long-term borrowings?

C. Subba Rao: That is not really material to that whatever that long-term borrowings which is appearing as 31 so to that we may have to add maybe 60 lakhs of funding because that will be closing by August or so it will be a max of 1 Crore.

Kashyap Zaveri: My third question is on this. Recently, we saw that report on Conflict Armament Research anything further on that or that issue is more or less close now?

C. Subba Rao: Yes that issue is living for a while and then it died down.

Kashyap Zaveri: In today's paper we have see about this Spyder missile system being sort of front runner for the SR-SAM and LR-SAM missile now. Is there any order which looks to be flowing from that particular in this year at least or it still will take some time?

C. Subba Rao: You said Spyder.

Kashyap Zaveri: The Spyder system that Israel Aerospace now in today's Times of India says that has been shortlisted for shortlisted for SR-SAM can we expect some orders on SR-SAM this year more or less even I think last quarter more or less the testing was also over, so can one expect some orders on that side in this year?

T. V. Chowdary: The SR-SAM, which we have no such information about the order but LR-SAM we are already holding, orders and then we are supplying.

Kashyap Zaveri: So within this 70 Crores order book which you mentioned that also includes LR-SAM also?

T. V. Chowdary: Yes.

Kashyap Zaveri: I have further questions I will come back in the queue.

Moderator: Thank you very much. We have the next question from the line of Gurudutt Kamath. Please go ahead.



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Gurudutt Kamath: Congrats Mr. T.V. Chowdary for the new role and based on your people flexibility. It actually makes Premier stronger also. Sir I have a couple of questions, one is on the order book for defense which was last year 90 Crores and this year it has gone down to 70 Crores? Is it because of some orders, which are getting delayed from government or BDL maybe some DRDO or something, which will be dictated for some time to go?

T.V. Chowdary: Thank you Mr. Kamath. About the order book see the order book is still it is intact only because of the deferment of delivery schedules from BDL and LR-SAM project we had to consider less in this year, that is the only reason for it, otherwise the orders are very much intact.

Gurudutt Kamath: The second question is related to defense revenue itself, Sir what is your expectation next year, I am not going into details but in terms of you have done 40 odd Crores this year. What would be the expectation for next year and where do you see that more flowing from it will be Akash, LR-SAM or something new like Astra which the government manipulating orders and maybe our army SR-SAM business we have order in that? That is very high number Sir probably out of this 70 Crores what do you think suppose to be executed next year?

T.V. Chowdary: We expect to execute the entire 70 Crores in the current financial year that is 2016-2017.

Gurudutt Kamath: What do you expect like in terms of revenue next year what is the expectation may be some idea about how much would you like to do in terms of?

T.V. Chowdary: You mean the year 2017-2018.

Gurudutt Kamath: 2016-2017.

T.V. Chowdary: 2016-2017 is 70 Crores what is projected and we will be executing that, you are asking about total company or you are asking defense particularly.

Gurudutt Kamath: Only defense I will probably go to explosive and service separately. Thanks Mr. T.V. Chowdary. In terms of the services for it I see a lots of activities as far as its grow ISRO is concerned do you think that is percolating down to your revenue also like in terms?

T.V. Chowdary: Yes, right now up to now we are involved in providing the services at ISRO premises and they are satisfied with our services and they are going to expand the area where they can utilize our services. That is one part. Second part is they are satisfied customer with our workforce in the propellant casting at ISRO and also propellant casting at our work set up at



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Peddakandukuru so based on their satisfaction we are expecting some good orders from ISRO which can be executed in our factory premises, which may take a little time may be a month or two to give the full details.

Gurudutt Kamath: So that will be the first time where that execution will happen from Premiers Explosives you might be look.

T.V. Chowdary: Yes.

Gurudutt Kamath: I will probably wait for some more questions. I will let others ask question on the explosives part. I will be in the line.

Moderator: Thank you very much. We have the next question from the line of Kalpesh Guthi from Ved Investments. Please go ahead.

Kalpesh Gothi: Good afternoon Sir. Sir can you throw some light on Pinaka-II Missile how the progress is going?

T.V. Chowdary: ARDE Pune develops Pinaka-II Missile and ARDE Pune has given us a development authors and also transfer technology. We have adopted the technology and delivered as part of the development order 31 numbers of Pinaka Mark II motors and also we have done the thermal insulation lining for Pinaka-Mark II motors. Now we are expecting and waiting for bigger orders from there.

Kalpesh Gothi: So what is the order size?

T.V. Chowdary: Difficult to say now because unless army inducts and army places are drawn them. At this stage really figures is a while guess.

Kalpesh Gothi: What about the Astra missile?

T.V. Chowdary: Astra missile is already done we have done more than 70 numbers up to now for DRDO. Now they have also completed their trials with Air force and we are expecting a bigger order. The current order what we have we have completed in this month so the process is going on they are processing the next order on us?

Kalpesh Gothi: Both the Pinaka and Astra will boost our order book in FY2017?



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- T.V. Chowdary:** No Pinaka Mark II we would not be able to say that now because the development is over. Now it is totally depends on the induction of it into armed forces whereas Astra is concerned, yes, it will contribute to our bottomline as well as the topline.
- Kalpesh Gothi:** Sir you have guided for the 70 Crores of revenue for the defense so what is your target for the full revenue.
- C Subba Rao:** We will be reaching around INR 225 - 230 Crores 2016-2017.
- Kalpesh Gothi:** Sir what is the update on the technical tie up for the industry licenses that you looking for the last six months?
- T.V. Chowdary:** Technical trial.
- Kalpesh Gothi:** Trial maybe you will be referring to difficult collaboration perhaps.
- T.V. Chowdary:** The question is not clear can you please.
- Kalpesh Gothi:** We have got the industrial licenses for many defense products we are looking for a technological tie-up.
- T.V. Chowdary:** Some of them we have already signed MOUs and some are already known to you which are announced earlier and it is going on discussions are going on and some of them we are going to do with indigenous technology rather than the technical tie-up with any foreign companies so I think there is more clarity will come by the end of current year.
- Kalpesh Gothi:** So in FY2017 we do not see any revenue from those licenses.
- T.V. Chowdary:** No this current year not.
- Kalpesh Gothi:** Thank you Sir.
- Moderator:** Thank you very much. Next we have a follow up question from the line of Kashyap Zaveri. Please go ahead.
- Kashyap Zaveri:** Sir one question on your total revenue side you mentioned that you are targeting about 230 Crores of revenue in FY2017 now in defense you said about 70 Crores and we have a fairly good order book in the services side also so implied revenue for bulk explosives comes in just about 130, 150 Crores which is barely any growth over FY2016 numbers. So how



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should one look at explosive revenue in that case. Bulk explosives plus cartridges and others?

T.V. Chowdary: We are targeting the export market, which we have already got some of the orders respect to the Middle East as well as for the East Asian countries, which is we are expecting a better contribution in terms of topline and bottomline from these places where does explosives as well as explosive accessories.

Kashyap Zaveri: In terms of Coal India subsidiaries we had about two years order book which was announced in March of last year now when does that order again comes for renewal when does it come for renewal?

T.V. Chowdary: The process is going on, the bidding process is going on.

Kashyap Zaveri: Any expectations on when this could be finalized?

T.V. Chowdary: No. Difficult to say that. This depends on that reverse bidding process electronic and all those so exactly dates and all those want to be able to say that.

Kashyap Zaveri: In terms of our JVs Israeli Aerospace plus what we signed with Bharat Forge also have any plans been materialized in terms of capex and products or this is still work-in-progress?

T.V. Chowdary: Right now we have applied for licenses in the name of JVs so parallely we are working out our strengths the JV partner strength to choose the products and all those so after that only we will be able to give that.

Kashyap Zaveri: Last question on your gross margin if I look at sequentially your raw material to sales has gone up by roughly about 200 basis points what would have driven that has the raw material prices moved up or what could have driven that?

C. Subba Rao: Basically the top-line has grown up because of the bulk explosives which take actually major part towards raw material.

Kashyap Zaveri: Thank you so much.

Moderator: Thank you very much. Our next question is from the line of Arul Kartik from Karvy. Please go ahead.



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- Arul Kartik:** This is with regard to order book sir the execution period for this 225 Crores order book is like 12 months?
- C. Subba Rao:** Overall turnover what we are saying is for this full year 225 - 230 cr will come as on today order book may be equal or less than that but some orders will keep on coming which may not be there as on hand now. So overall, we will make 225- 230 Crores.
- Arul Kartik:** In terms of PAT we will be doing?
- C. Subba Rao:** That is very difficult question.
- Arul Kartik:** Sir in terms of explosives if we split the explosive division into like, bulk explosive, detonators like most of the sales comes from explosives so what is the contribution in terms of volume contribution from the detonator, do we see a pickup in the market in terms of volume?
- C. Subba Rao:** The detonators compared the to say December kind of time there is an improvement on say March, April and May but in May also there is some regulation that came out which is having some restriction on the trade at retail level, the stock holding or daily sales quantity those things something has come so currently industry is actually grappling with that but once that is over we hope it will come back to normalcy we also hope it will not be as bad as may be six months back.
- Arul Kartik:** The realizations have improved compared to last year?
- C. Subba Rao:** Yes six months back if you compare we have good enough now.
- T.V. Chowdary:** The realization from detonator is very, very fluid. It keeps on changing because it is linked with the dealer market. Right now present position is better. It has improved. Now we cannot guess after three months what happens and that detonator business comparatively is going slower than the bulk explosives and the detonating fuse.
- Arul Kartik:** You said that due to regulations and all that is it particularly concentrated in Maharashtra region?
- C Subba Rao:** Throughout India.
- Arul Kartik:** You hope that you will pass through this situation?



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- C Subba Rao:** Yes, that is applicable to the entire industry.
- Arul Kartik:** Sir what is ammonium nitrate price is like what has been the average ammonium nitrate price per tonne for this FY 2016?
- C Subba Rao:** It is very difficult to say but what is happening is earlier few imports were only there again practically because of the restrictions or whatever. For the last three four months we are seeing a good activity in importation. So that is moving to the little cost saving compared to domestic supplies and domestic supplies also what we are hearing Deepak Fertilizers reduced the production because of lack of water, RCF because of maintenance issues. Those kinds of factors were there. So overall imports are going up it appears. So let us see how much importation we do or in the how much domestic we have to procure.
- Arul Kartik:** In general like we had savings because of import of ammonium nitrate I can assume like that?
- C Subba Rao:** Yes, for the time being yes.
- Arul Kartik:** Sir with regards to like defense order book like we have a mix of propellants like Akash and LR-SAM or Pinaka what is the current run rate of Akash missile Sir?
- T.V. Chowdary:** Akash missile rate we would not be knowing that is a BDL pricing. Are you asking for propellant?
- Arul Kartik:** Propellant?
- C Subba Rao:** Let us see that one actually it depends upon ultimately BDL how much they supply to defense. It keeps on changing.
- Arul Kartik:** Like most of the defense orders is like Akash is concentrated or it is like 70 Crores order book it has come down?
- C. Subba Rao:** No it is a mix of Akash, LR-SAM and all those things.
- T.V. Chowdary:** Akash is continuing the way it is going to that the orders are basically added LR-SAM and others are added to the previous year's continuation.



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- Arul Kartik:** With regard to the contract with the new opportunity that we are exploring with ISRO that will come under which contract or like production contract that we will do something for it so in our facilities?
- T.V. Chowdary:** We are expecting both.
- Arul Kartik:** Okay it is a combination of both.
- T.V. Chowdary:** Yes.
- Arul Kartik:** All the existing two contracts it is completely renewed?
- T.V. Chowdary:** Existing contracts we have another 1.5 years or less so they are in the process.
- Arul Kartik:** The ordinance factory contract also has renewed Sir?
- C Subba Rao:** That is for solid fuel complex. That has already renewed last year.
- Arul Kartik:** Thank you.
- Moderator:** Thank you very much. We have the next question from the line of Sachin Kasera from Lucky Investment. Please go ahead.
- Sachin Kasera:** Sir you are talking of a significant growth in the revenue from defense from 37 to 70 Crores do you see the EBITDA margins being far better than 9.5% that you reported in the current year?
- C Subba Rao:** Sure.
- Sachin Kasera:** Any share you can give how much improvement you think it can come?
- C Subba Rao:** That is difficult but certainly as a product mix of defense increases this will improve.
- Sachin Kasera:** Secondly do you see the order inflow improving this year because of the new defense policy that has come effective April 1?
- C Subba Rao:** Yes that impact would be there but we are seeing mostly based on the current order position as well as the whatever the negotiation that were going on in place after the new policy let us see off-set all those things how they really come in.



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- Sachin Kasera:** So you think the major impact on the order inflow may be only come from FY2018 because of the new policy or you are not sure whether there is any major improvement in the order inflow because of the new policy?
- C Subba Rao:** Yes it is difficult to say. I am saying there is a link what exactly what element of the policy is going to really give good revenue so the kind of.
- T. V. Chowdary:** The present orders what we have. They have nothing to do with the new policy.
- Sachin Kasera:** That I understand I am talking of the order inflow for FY2017 and 2018 Sir.
- T. V. Chowdary:** So as such the major contribution that 70 Crores will be coming from the existing orders itself.
- Sachin Kasera:** I am talking of what the type of order inflow do you see for FY2017 and 2018 Sir.
- T. V. Chowdary:** Yes, we are expecting inflows because of that but which we are not able to quantify right now.
- Sachin Kasera:** Thank you Sir.
- Moderator:** Thank you very much. We now have another follow up question from the line of Kashyap Zaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Zaveri:** Sir two questions one is the on the offset side in defense are the enquiries are our revenues flowing from the offset from some of the other company multinational companies? Two in the explosive side how is the non-coal sort of orders are they coming up for tendering or how is that, what is the outlook over there?
- T. V. Chowdary:** In the non-coal sector it is mostly the cement industry limestone quarrying and dealer market for the stone quarrying and other things. So they do not go by the tendering process they go by the quotation tendering.
- Kashyap Zaveri:** Are we seeing more enquires coming from there and cement growth for last about two, three months has been very good.
- T. V. Chowdary:** Yes and other than that there are overburden contractors for open cast mining, which again the private contractor they plays partners directly there also we, are there.



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- Kashyap Zaveri:** Let's say versus coal could this be a significant revenue driver for us?
- T. V. Chowdary:** No, definitely coal is major.
- Kashyap Zaveri:** But proportion could be in 80:20 or 90:10.
- T. V. Chowdary:** 80:20 is on take.
- Kashyap Zaveri:** On the offset side?
- T. V. Chowdary:** Offset side yes we have a lot of I was mentioning we have signed MOUs with the international partners, definitely if they get into the business we get into business, in addition to that we have offset orders from couple of suppliers to the Indian Army Forces.
- Kashyap Zaveri:** This 70 Crores closing order book which we have this year this MOUs can add a good portion in FY2017 in terms of order book?
- T. V. Chowdary:** They are not so much significant in this year but they will reflect in the next year.
- Kashyap Zaveri:** FY2018.
- T. V. Chowdary:** Yes.
- Kashyap Zaveri:** Thank you so much Sir.
- Moderator:** Thank you very much. We now have a follow up question from the line of Gurudutt Kamath. Please go ahead Sir.
- Gurudutt Kamath:** Sir recently one of your competitor, I think they have got some order of 300 propellants for the 300 Akash Missile worth about 80 Crores and this is their first defense order so how is the competitive landscape looking like is it like the buy is too big for everyone to participate or you will fill the heat of others coming into this?
- T. V. Chowdary:** We always have the first entry advantage so we are planning to deliver our 1000th Akash postal wing in end of the June.
- Gurudutt Kamath:** That will be 1000th one.
- T. V. Chowdary:** Yes so I think that answers.



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Gurudutt Kamath: Now BDL has and I think they recently got the facility expanded or they are planning to expand their output of Akash from 500 to 1000 per month or something like that and obviously most of them will be from their side?

T. V. Chowdary: But what we hear in the vendors meet where the BDL management share their plans I think right now they are doing assembling around 50 numbers per month and they have targeted 70 numbers in the coming months so that is what from my presence in the meeting I could get.

Gurudutt Kamath: That is what they are executing we are seeing they are assembling.

T. V. Chowdary: And right now we are meeting their full requirement.

Gurudutt Kamath: Sir this BMCS platform sorry if I am spelling the acronym wrong but that BCNS or BMCS that is for ammunition any progress which has happened on that further discussion with the Defense Ministry the ordinance.

T. V. Chowdary: The issue is very much live that much I can say.

Gurudutt Kamath: But again because we hear that lots of foreign participants vying for that because it is a huge opportunity so are you looking at partnering with someone for that?

T. V. Chowdary: Yes.

Gurudutt Kamath: Any idea when do you think that I know it is a government related decision but what is your gut feeling about when can we see that order or when can we see that faster movement in that area or maybe order flowing in financial year 2018 or something is that?

T. V. Chowdary: Order flowing in we will not be able to say because these all these orders they take at least two years, three years, to materialize and then start contributing to the revenue, but only we can say that yes the activity is there. We are very much part of it so we are hoping something big from there.

Gurudutt Kamath: As far as Astra missile is concerned Sir is it that they are very keen to start the production part as soon as possible and will it be spread for two, three years or something like that?

T. V. Chowdary: I think in case of Astra that gestation period of development stage is over now what we hear from the project Astra project we hear that they are very keen to productionize and induct.



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- Gurudutt Kamath:** Any information you can share as far as the numbers what you may expect in terms of numbers from there?
- T. V. Chowdary:** Difficult to say that, but yes definitely we because as a developer of Astra propellant we are expecting a lot from them and we also have assurances as a partner of the development.
- Gurudutt Kamath:** One last question Sir is about any other missile program you think to engage with either BDL or DRDO other than these names which you have given Akash, LR-SAM, Pinaka and Astra?
- T. V. Chowdary:** Presently we have the only propellant. We have developed and we own the proprietary right for no-smoke propellant, which is used in LR-SAM, MR-SAM, QR-SAM, ARM all these missiles, which are under development stage at DRDO they are associated with.
- Gurudutt Kamath:** Thanks Sir.
- Moderator:** Thank you very much. As there are no further questions I now hand the line over back to Mr. Saurabh Ambaselkar.
- Saurabh Ambaselkar:** On behalf of S-Ancial Global Solutions, I thank management and all the participants.
- Moderator:** Ladies and gentlemen, on behalf of S-Ancial Global and Premier Explosives Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.