



“Premier Explosives Limited Q4 FY15 Earnings  
Conference Call”

**May 21, 2015**



**MANAGEMENT:**    **DR. A N GUPTA – CHAIRMAN & MANAGING DIRECTOR**  
                          **MR. T V CHOWDHARY – EXECUTIVE DIRECTOR**  
                          **MR. C SUBBA RAO – CHIEF FINANCIAL OFFICER**

**MODERATOR:**    **MR. VIKASH VERMA –VP - S-ANCIAL ADVISORS PRIVATE**  
                          **LIMITED**



*Premier Explosives Limited  
May 21, 2015*

**Moderator:** Ladies and gentlemen, good day and welcome to the Premier Explosives Limited Q4 FY15 Earnings Conference Call hosted by S-Ancial Advisors 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 this conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Verma from S-Ancial Advisors. Thank you and over to you Mr. Verma.

**Vikash Verma:** Thanks Malika. I, on behalf of S-Ancial Advisors, welcome you all to Premier Explosives Limited Q4 FY15 Results Conference Call. We have with us Dr. A N Gupta – CMD, Mr. T V Chowdhary – Executive Director and Mr. C Subba Rao – CFO of the company. I now hand over the call to Dr. A N Gupta. Over to you Sir.

**Dr. A N Gupta:** Good afternoon everyone. I welcome everyone to Premier Explosives Limited's March quarter 2015 Conference Call. The net sales for the quarter of March 2015 stood at Rs. 422.1 million – a 2% year on year increase. For full year FY15, the company reported net sales at INR 1495 million and the company's operating profit was INR 43.2 million, a growth of 42% year on year. The operating margin during fourth quarter of 2015 was at 10.2% while the profit after tax for the March quarter 2015 stood at INR 20.2 million. The company's performance was mainly driven by the growth in the explosives business and services. The explosives business grew by 12.3% year on year in fourth quarter 2015 and 5.3% year on year in the financial year 2015. Service business grew by 14.4% year on year in the fourth quarter of 2015 and 5.7% year on year in the year 2015. Due to the low sales of grenades i.e. the slope grenades which are used for mob dispersion, the defence products business saw a decline of 30.9% year on year in the quarter 2015 and 6.8% year on year in the year 2015. However the demand for defence product is satisfactory and the company is positive on the sector prospects. The company received licenses for mob dispersion devices including the tear gas shells, site mixed explosives at two more sites, ammunition, rockets and missiles, mines related to defence, bombs and cartridge explosive from the department of industrial policy and promotion (DIPP). To conclude I would say that we should see better prospects for defence sector going ahead as you know Akash Missile is already handed over the army and there would be a steady and larger requirement of Akash boosters and sustainer which we are supplying to BDL. Now I would be happy to answer your questions.

**Moderator:** Thank you very much sir. Ladies & gentlemen we will now begin the question and answer session. The first question is from the line of Dixit Doshi from Whitestone Financial Advisors, please go ahead.

**Dixit Doshi:** Sir I have 2-3 questions, one in your presentation you have mentioned that the defence product have an order book of Rs. 90 crores. Can you just elaborate how much time it will take for execution? It is to be executed over how much time?



*Premier Explosives Limited  
May 21, 2015*

- Dr. A N Gupta:** See our orders for booster grain for Akash from BDL are up to March 2016. So whatever balance quantity of orders which we have from BDL have to be completed by March 2016. And most of the orders which we are showing up on the order book are from BDL. There are minor quantities from other projects. And the DRDO orders also would be completed by March 2016, maximum up to may be July 2016.
- Dixit Doshi:** So you mean to say that this Rs. 90 crores will be executed over say 15 to 18 months, entire Rs. 90 crores?
- Dr. A N Gupta:** Exactly.
- Dixit Doshi:** And one more question sir, that as you mentioned that you got the DIPP approval for some of the new products. So if you can elaborate that how much opportunity would be there and do we get the orders from DRDO only for these products or is it for some private parties also?
- Dr. A N Gupta:** See the licenses which we have received out of which these two licenses i.e. the site mixed explosive plant and cartridge explosive plant are mainly supplied to the private customers. All others like mob dispersion devices will go to we can say army, police, and the paramilitary forces. And rockets, missiles or mines or bombs, warheads etc. they would be mainly supplied to the army. Now whether they are routed through BDL or they are directly bought by the master general ordinance that we have to see.
- Dixit Doshi:** How much could be the size, I mean even in the private sector you said the site mixed explosive and ammunition would be supplied to the private party, so is there any discussion with any player going on or something like that?
- Dr. A N Gupta:** See we have received three licenses on this. One of them is in Neyveli, one of them is in Manuguru and the third one is at new site which we have called Katepalli. There are customers around there so it will take us about may be 1 year to set up to plant, 8 to 9 months rather to set up the plant and then we start supplying to the customers around there. So there are already users of explosives near these sites, so six months down the line we will start contacting them for orders. As soon as the sites are ready, one by one we will start supplying.
- Dixit Doshi:** Any update or anything happening at the BF Premier Energy System, the joint venture with Bharat Forge?
- Dr. A N Gupta:** Certainly things are happening. We have had our first board meeting and as we would see at the site and we have got a registration of a company. Last 2-3 days we were working on the new projects which we are taking up. So I hope that in the current year probably we will be setting up the plant and from the next year we will be making the commercial sales.



*Premier Explosives Limited  
May 21, 2015*

**Dixit Doshi:** Okay, so even for the product which we have to supply to Bharat Forge, I mean even those products plant can also be completed within one year, the construction?

**Dr. A N Gupta:** Yeah, that is right.

**Dixit Doshi:** Just last one question, can you share some of your thoughts about the explosive divisions, how is the market and how is the pricing and everything, demand side?

**Dr. A N Gupta:** Well as far as the packaged explosives and site mixed explosives are concerned, the demand is good and we have done better than the last year. And the prices are also good because the prices are all sort of linked with the raw material prices but the demand for detonator remains very-very low and prices are depressed. So that sort of a thing as we come again is commodity. And we are reviewing and seeing whether some alternate products can be made in the same facilities.

**Moderator:** Next question is from the line of Siddharth Purohit from Sushil Finance, please go ahead.

**Siddharth Purohit:** Just wanted to know when you talk about explosive business, how is the pricing normally determined, I mean I understand it is not fully but there is lot of regulations I believe. So how is the pricing determined when you supply? Is it on an open bid, tendering, or something or you supply something on spot market also? Is it annual contract or how does it happen?

**Dr. A N Gupta:** See as far as the customers in the coal or the mining sector are concerned main customers like Coal India, Singareni Collieries, or Neyveli Lignites they are all tender based. So Coal India is doing reverse bidding. Singareni Collieries is also doing reverse bidding. Neyveli is doing multiple vendors but take sealed covers so both of types of business are there and very small customers like cement mines and that smaller customers, basically we coach employees and the callers for negotiation and we negotiate and agree. As far as the trade market is concerned that goes by the demand supply. Like last year the detonator we were selling between Rs. 5 to Rs. 6 per detonator, but current year it has dropped down because there is a glut in the market, production is more than the requirement which is come down to Rs. 2.8 per detonator to Rs. 3 per detonator. Detonator is same, the buyer is also same. It depends upon demand and supply. The reason for we have touched our turnover prediction of Rs. 180 crores but that profitability has not moved accordingly mainly because of the detonator which accounts for almost like 25% to 30% of our total turnover.

**Siddharth Purohit:** And sir on the raw material front, what would be our largest raw material? Is it something like ammonium nitrate also?

**Dr. A N Gupta:** Ammonium Nitrate is the main raw material for all type of packaged as well as site mixed explosives and for different product there is a different raw material like for detonators it is aluminum sheets or the GI Wire which is coated wire which is the largest – these two form



*Premier Explosives Limited  
May 21, 2015*

almost like 80% of our total cost. And as far as the explosive is concerned, defence is concerned, there are other raw materials but I am constraints to tell you the names.

**Siddharth Purohit:** Sir more question relating to the defence product segment, whatever material you are supplying to this, Akash missile and all that comes under the defence product segment and other things, right?

**Dr. A N Gupta:** That comes under defence and that is again they go for a sealed tender depending upon the vendors which are approved. Right now there are only two vendors which are approved i.e. Ordnance Factory Itarsi and Premier Explosives. Some trials or transfer technology is taking place in the new competition and between two offers they will send the inquiry and the order will be split depending upon who is L1. L1 gets 60%, the other one gets 40% but there are certain products where ordinance factory is not supplying. So it is a single tender basis that is ourselves and they take the quotation and they do their own sums that what should be the cost. As per that there will be negotiations. They will ask us to reduce, we will say no, so like that we come to some agreement, and then the price is fixed.

**Siddharth Purohit:** Sir lastly one thing if you can share like how would be the profitability, difference between the normal explosive that you are supplying and the defence product that you are supplying? Obviously I assume the difference should have better margins but how, can you quantify it?

**Dr. A N Gupta:** No, I cannot quantify because it depends upon also product to product and depends upon how complicated the product is because in the defence product this is not only the cost of raw material which is a concern, it is the IPR which goes into it – how we develop it and what sort of a quality is required is prepared. As far as the civil explosive is concerned their margins are less because as I told you it has become a commodity market. The more the suppliers and there production is larger than the demand and the customer is not very discerning as far as the quality is concerned.

**Moderator:** The next question is from the line of Madan Gopal from Sundaram Mutual Fund, please go ahead.

**Madan Gopal:** Post our meeting in our office any update on the defence side like last time when we met you talked about LR Sam coming up much ahead of what you expected. Any momentum on the Pinaka side if you can highlight it will be helpful?

**Dr. A N Gupta:** I am giving you all the details but LRSAM we have received the order and we have started the supplies and as far as Pinaka is concerned, Pinaka 1 which is being mainly supplied by Ordnance Factory Itarsi. The tender is still yet to be open. In the meantime the DRDO unit called ARDE i.e. Armament Research Development Establishment they have developed two more rockets, one is Pinaka 2 which is case bonded and extended range 122 Grad. I do not know you will understand from that. That is a technical name. Both of these, we have received



*Premier Explosives Limited  
May 21, 2015*

inquiries. The second one is called Pinaka 2 and third one is 122 mm Grad extended range. This 122 Grad was being imported so far from Russia and Eastern Block, mainly Serbia. And the requirement is huge. Requirement could be as much as 50,000 to 60,000 rockets. These are the ones which are used from the multi-barrel rocket launcher. So they have asked us to quote for certain quantities and whenever they take the decision, probably another 2 to 4 months time then we will start producing those.

**Madan Gopal:** Any ramp up you are seeing in terms of numbers increasing?

**Dr. A N Gupta:** As on date they have not indicated directly any ramp up but I expected like any other decision on India that we do not have any of these missiles to protect our border as well as places like Delhi Airport or Rashtrapati Bhawan or things like that. So there has to be larger requirement. The first one has been that it has been inducted in army. It was in the papers. It was a splash. How did you miss it? The first unit, the first battalion of Grad was handed over by Defence Minister and BDL Chairman and everybody, big show of Akash to the army. Their requirement is further more so it has to come. As it is way supplied more than 600 numbers and the order pending on our side is another 600 number probably. And second order now they should be starting processing because all these orders will be over by March 16.

**Mr. C Subba Rao:** As per the scheduled given to us there is a ramp up from October.

**Madan Gopal:** We have an order book in defence. What sort of execution period is that?

**Dr. A N Gupta:** I wondered you answered that question. 15 to 18 months we should complete the orders. In the meantime there will be further orders so nothing to worry. This is the area where there is going to be a larger and larger demand.

**Madan Gopal:** There are some orders like any further ramp up is happening or you got the initial set of orders?

**Dr. A N Gupta:** We got the initial set of orders and yesterday only we received the advance money for that, 30%. So as their hardware gets ready, the casing and all that gets ready and they supply they received six numbers also of that in last week so we keep on supplying.

**Madan Gopal:** That is not going to become pretty big in this year at least or we will contribute a meaningful number to our topping.

**Dr. A N Gupta:** Certainly, these two are the main missiles today which are indigenously produced and the other two as I told you the Grad and the Pinaka 2 from ARDE are coming so this has become fourth – 2 rockets and 2 missiles and then “Make in India” is taking some shape. There are lot of inquiries we are getting, lot of visits we are getting and apart from that the new license for



*Premier Explosives Limited  
May 21, 2015*

ammunition that is one which is really encouraging because all other things are not consumable but ammunition is something which is consumable.

- Moderator:** The next question is from the line of Satish Kumar from Merrill Lynch, please go ahead.
- Satish Kumar:** Just wanted to know one technical thing is it now mandatory that only nitrate based explosive will be used in say mining?
- Dr. A N Gupta:** Yeah, it is mandatory that ammonium nitrate based explosives will be used in commercial area.
- Satish Kumar:** And if I understand correctly, correct me if I am wrong that we have filed a patent for the same?
- Dr. A N Gupta:** No, that is something different. I think you have got mixed up. Ammonium nitrate is used in explosives and that is for the detonators we developed a new primer called nickel hydrazine nitrate for which we have filed a patent and this will be replacing two lead salts, one of them is called lead Azide, second is called lead Styphnate. Both of them, one thing they are pollutants because they are lead salts and they have a very bad color and all that and second is that they are very sensitive. So one of our workers had dropped one bottle in 2012 from a table and it exploded and the poor fellow passed away. So now the new chemical which we have sort of mastered and formed its use is called nickel hydrazine nitrate is much safer. It is three times safer than the lead Azide and lead Styphnate.
- Satish Kumar:** And sir my other question was regarding this Coal India tender. That is supposed to open in the month of June and that will be for three years, right?
- Dr. A N Gupta:** Yes, all Coal India tenders have now become three years.
- Satish Kumar:** After how much time they have come out with a standard sir?
- Dr. A N Gupta:** After three years.
- Moderator:** Next question is from the line of Kalpesh Gothi from Wallfort Financial Services, please go ahead.
- Kalpesh Gothi:** I have two questions. You have received the license for the ammunitions. Do you expect to start commercialization of that product?
- Dr. A N Gupta:** Sure, otherwise why should we apply for license? Say it took more than three years to get the license and the license was received and immediately we had put it on BSE.
- Kalpesh Gothi:** So do we expect some revenue from this product in FY16?



*Premier Explosives Limited  
May 21, 2015*

- Dr. A N Gupta:** FY16 no, but FY17 yes. See the license does not mean that the facilities are ready. After getting the license we start planning for the facilities. If a collaboration is required we try to get the collaboration, get the approval from Chief Controller of Explosives and inspect the factories pollution control board. They have a lot of work to be done. Fortunately for us we have the land required for this and we are already in the process of almost finalizing the collaboration. So we have shortened this point and now we are preparing the drawings etc to submit it to the Chief Controller of Explosives and respective factories and pollution control board and thereafter some trials, it has to be tested and approved by the army or the defence forces. Let me call it defence and then we start producing and supplying.
- Kalpesh Gothi:** And sir which missile this ammunition will be loaded?
- Dr. A N Gupta:** This ammunition goes into the gun. We have got permission to make 40 mm onwards. That means 40 mm up to 155 mm. 155 mm is Bofors Gun. I think you must have heard the name and 40 mm is used from a stand. It is not a shoulder fired gun.
- Kalpesh Gothi:** And sir you talked about 122 mm extended range. The grain will be used is same as Pinaka?
- Dr. A N Gupta:** No every missile or rocket has got its own configuration, its own range and its own propellant. So there will be no similarity between Pinaka and 122 mm.
- Kalpesh Gothi:** Then what will be the size of that grain?
- Dr. A N Gupta:** I cannot tell you that. I would be bound by the confidentiality which we have signed with the DRDO.
- Moderator:** Next question is from the line of Chintan Seth from SKS Capital and Investments, please go ahead.
- Chintan Seth:** Just wanted to get an update on the CAPEX, what kind of CAPEX we are planning for the next 2-3 years?
- Dr. A N Gupta:** It looks like lot of licenses have rained on us in the last one month. So we are sort of prioritizing and sort of doing the capital required for all of these. So probably may be in another 2-3 months we would know exactly what CAPEX will be required.
- Chintan Seth:** And our shares in terms of defence and explosive mixes is currently 24% explosive and defence is 16% sort of.
- Dr. A N Gupta:** Defence is about 40% including services. Services are also defence because they are related to defence. If we have not got these services probably we would not be in the defence.
- Chintan Seth:** So it will be 25% defence and 75% explosives.



*Premier Explosives Limited  
May 21, 2015*

**Dr. A N Gupta:** 39% to 40% I do not know exactly, 39.9% something in the defence and the rest is under explosives and trademark, explosives for organized sector and trade jump.

**Chintan Seth:** Because as per the presentation I was looking at the slide 8 wherein you gave the breakup of defence expenses so there will be some overlap of defence expenses included in there that's why the numbers are....

**Dr. A N Gupta:** No the services should be included in the defence.

**Chintan Seth:** So 16 plus 9 is 25% and 75% explosives.

**Dr. A N Gupta:** Which page you are seeing I don't know.

**Chintan Seth:** Slide 8.

**Dr. A N Gupta:** I done some rough calculations myself and that was coming to around that 39% plus and the balance was in the other one. Maybe I made some mistake my accountant says it is 27% in the defence and the balance is....

**Chintan Seth:** And you can give reason where you want to see this defence share inching up to going forward like the kind of licenses and kind of products getting approval, how large it will become a next two years, what kind of revenue share it will bring to the country?

**Dr. A N Gupta:** We expect in the next year whatever we are doing to the license for mob dispersion devices in fact we had a great feedback in that one, we expect it to do about 8 crores but we ended doing only 2 crores because there was not much of a budget left for the police and the paramilitary forces for buying these which is now coming through. So we hope that 6 or 7 crores we missed out that will also be added to this. We hope that 40%, we target at 40% let's see what we do.

**Chintan Seth:** How will the next tenure of the Coal India during June, what kind of growth numbers you can expect from them given the lump sum mining they got after the new coal block allocation and all so what kind of numbers, any grey idea about how the numbers will look like?

**Dr. A N Gupta:** The tender was floated much before these mining things have been done so these are all more or less similar to the previous year but there would be certainly a larger requirement and also there would be requirement from the other private parties who have been given the blocks like Reliance and so on. So number should be good but I'm not an astrologer so next month we will come to know how do we fare? But we have decided if the prices are not remunerative, we will rather take the minimum. If prices are remunerative so then we will try for the maximum.

**Chintan Seth:** And one last thing on explosives, any breakup between you mentioned detonators are almost 25%-30% off your total turnover, what will be the split between traded explosives, mining



*Premier Explosives Limited  
May 21, 2015*

explosives and detonators if you can provide us so that we can get an idea how the mix will look like if you are not participating in remunerative explosive business next year.

**Dr. A N Gupta:** As far as detonators are concerned they are mostly trade sector, almost like 100% are there, not 100% I can say about 80% are in the trade sector in 20% in the organized sector. As far as explosives are concerned about 25% is in the trade sector and about 75% is in the organized sector.

**Chintan Seth:** Your current utilization levels whether we are fully equipped with the bump-up in demand next year to meet the additional requirement.

**Dr. A N Gupta:** We have a lot of capacity and recently the DIPP license has also relate to 3 licenses in the explosive sector so there is no shortage of production capacity. If there is a larger opportunity we will be able to match it.

**Chintan Seth:** Thanks.

**Moderator:** Thank you. Next question is from the line of Nidhi Agrawal from Sharekhan. Please go ahead.

**Nidhi Agrawal:** In this market how well it can grow in the next coming years when the government is having lot of plans for defence and industrial activities pickup, where do you see the market going?

**Dr. A N Gupta:** As far the defence market if the 'Make India' thing even 50% successful that market is going to really explode, it will be very huge and if it is 100% then we will be all struggling to meet the demand and all that and the initial response so far we have seen is very-very good. The suppliers from the countries like France, Israel from USA from Serbia from Czech Republic and all that, all of them have sort of going around and finding out who could be there as more suitable partners and we are negotiating with couple of them and let us see how it comes up. But it should be larger, much larger than what we expected before the new government came into power.

**Nidhi Agrawal:** Sir this 'Make in India' policy do you see that government will grant more license to encourage competition in different defence segments?

**Dr. A N Gupta:** First thing is to meet our requirement, it's not question of competition. Right now you must have heard that we have only war reserves for two days and recently after so much of work done by the government in one year they say that now we have our reserve which we can fight for maybe 2 weeks to 3 weeks, somebody says 20 days, somebody says 15 days and if there is a skirmish of the China we don't have probably one day stock. So there is presently if that you fill up gaps there, we have so many men with so many guns but there are no ammunition. We have so many rocket launchers but we don't have rockets.



*Premier Explosives Limited  
May 21, 2015*

- Nidhi Agrawal:** But new players can always enter.
- Dr. A N Gupta:** Yeah it's a huge big barrier for the new players. One new player is coming up as we know but it is not something which you can learn and do in a day. It has taken us from 2003 to 2015 to reach this stage and believe me we work almost like round-the-clock.
- Nidhi Agrawal:** This new license that we have got recently, what is the revenue opportunity and like you said that it will come only from FY 17 but what can be the margins and revenue addition to your top line? And like how big is the market for this or it can become?
- Dr. A N Gupta:** One license for defence, ammunition, rockets, missiles, mines, guns, cartridges all that itself could be running into multiple of millions or 100 million or 200 million and all that. But we will take some time to produce, get it tested, get it approved, and then supply it to the defence. So there is some gestation period required, it will not ramp-up from tomorrow now. We have to set the facilities, make the production as required by the army and there is 'Make India' policy that's very clear. If there is the domestic supplier the international suppliers will not be considered provided the product is tested and approved.
- Nidhi Agrawal:** And in your order book most of this is executable within 18 months, right?
- Dr. A N Gupta:** They will be completed in 2016 and we have order book doesn't mean that there is no further order coming, for 6 days basis we are reviewing enquiries. **Nidhi Agrawal:** So what kind of growth you are expecting in FY16?
- Dr. A N Gupta:** We hope to cross 200 maybe little more than 200 crores. This is a wishful thinking, don't take it in write it in your reports. And we're also doing offsets and one of the offset has been just confirmed today. This is from a company who is making the defence explosives so like that there would be more and more coming in. I think these are the good days now.
- Nidhi Agrawal:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Prabhat from HDFC Securities. Please go ahead.
- Prabhat:** I just need to understand the kind of operating leverage that you have so if I look at your presentation FY12 you have done operating margins of 16.1, can that be assumed the peak margins in the last 5 to 10 years?
- C Subbarao:** No we would have made a better margin maybe in 2012-13 or one earlier year that was actually much better year than this.
- Prabhat:** At present margin profile is pretty volatile 11.2% FY14 and then 8.4% FY15 so what kind of, do we have any operating leverage with these licenses coming in, probably maybe FY16,



*Premier Explosives Limited  
May 21, 2015*

FY17 maybe where the revenues from the licenses come in the products that developed and deployed in the market can we expect the margins to ramp-up to say about 15-16% again by FY17?

**Dr. A N Gupta:** Absolutely that's what we are working towards but let's see, God is great.

**Prabhat:** And on the CAPEX front you mentioned that you are still yet to decide on your CAPEX need now that you got some new licenses. Before these licenses came over there any CAPEX plans as normal course of CAPEX?

**Dr. A N Gupta:** That time it was only small CAPEX which is required for debottlenecking and sort of the ramping-up existing products. Now that we got the new licenses we have to seriously work on the CAPEX and then decide how to raise that.

**Prabhat:** You currently have an order book of 90 crores in defence and about 80 crores in explosives and 15 crores in services, what was the peak order book like?

**Dr. A N Gupta:** See these are revenue items so you get the order you supply, this is not something, these are the only two items like what you have said CIL or the orders from BDL and all that which are on the order book basis because they give a long-term order. One company gets 3 years or 2 years orders so is every day we are getting the orders and supplying.

**Prabhat:** So there is a good enough portion of orders that you have which is not required in the order book but they reflecting the revenue?

**Dr. A N Gupta:** It is not necessary that I should have order book of 200 crores to do 200 crores, no. We keep on getting the orders, we keep on getting export orders, we keep on exporting, we get the domestic orders, we export, we get a trade market where explosives comes and stands in front of our factory with the money and then we load it and send it.

**Prabhat:** I missed the figure there the current utilization rate is at?

**Dr. A N Gupta:** Utilization rate is having ample capacity to supply larger quantity I will say.

**Prabhat:** A rough rate you can give us the kind of percentage comes?

**Dr. A N Gupta:** No, you see there are so many products, which product I will give you the rate tell me? I have electric detonators, I am working on maybe some maybe 70% capacity, I have got detonating fuse which is I am working that about 75% capacity so what do I do. When you have got a bouquet of product I can't give you average utilization.

**Prabhat:** Average would be what we are asking, average is perfect.



*Premier Explosives Limited  
May 21, 2015*

- Dr. A N Gupta:** Average I have not worked out simply, I'm very sorry. Next con-call I will give you that reply.
- Moderator:** Thank you. Next question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.
- Kartik Mehta:** This question is probably asked on the basis of JV what we have decided to incur with Bharat Forge Group, what is the purpose and scope of this JV and how it would be different from the existing defence business what we have?
- Dr. A N Gupta:** Presently we are doing certain things on orders received from the BDL. Now Bharat Forge has signed a JV with company called Rafael. Now we would be making probably the entire rocket or maybe the backend of the rocket for Rafael. Rafael is going to supply it to BDL for integration and they would be giving it to the defence and similarly they keep on getting orders for what's called the projectiles. When you have ammunition there is a propellant, there is a projectile. They make the projectiles, now that projectile is a forged item which is their key strength, core strength. Not those projectiles will come to the JV and they will do the filling product. So it's a complimentary thing and as we are going along we would be taking more and more products and trying to expand some business.
- Kartik Mehta:** Apart from India it would be majorly also exporting to the overseas countries?
- Dr. A N Gupta:** We can do whatever we are already doing now or the JV will be doing. We can always export if there is an opportunity for export. Recently only the defence minister has said that you can export the defence goods, previously they were not being allowed.
- Kartik Mehta:** Any ballpark number how much amount you would be investing?
- Dr. A N Gupta:** Not yet.
- Kartik Mehta:** And you said about the licenses that since we have got licenses then we need to search for the collaboration so first off or do we have enough land to start up with the setting up of the factory?
- Dr. A N Gupta:** Presently the things like ammunition, there is some specialized ammunition, and there are some guided bombs and things like that for that there is no competence in the India itself. So we are looking for such things which we can add to the defence of India.
- Kartik Mehta:** So you are looking at foreign collaboration majorly?
- Dr. A N Gupta:** Absolutely. Indian collaboration we can give, we are the best.
- Kartik Mehta:** You have got the license that means you have got the technical know-how and understanding of the product you are going to manufacture and this collaborative with whom you do the



*Premier Explosives Limited  
May 21, 2015*

collaboration would have some finished product and you would be supplying intermediate to the final collaborator that's what the right understanding?

**Dr. A N Gupta:** Maybe some of the products they will supply the intermediates, for some of the products they will supply the technology, for some of the products they will sort of jointly designed, and made the plan so it's open. These orders have been received only day before yesterday so it is too early to say something.

**Kartik Mehta:** Who else in India would have got these licenses along with you?

**Dr. A N Gupta:** I don't know if there is anybody who has got the license for what we have received like the ammunition, rocket missiles and warheads and bombs and mines and so on so forth so there is no one else.

**Kartik Mehta:** Any idea before how many years you would have applied for these licenses and you took how many years for you to receive it?

**Dr. A N Gupta:** About three years.

**Kartik Mehta:** And you said that you started for working on it from 2003-04 onwards and you are finally getting some favorable outcome in 2015.

**Dr. A N Gupta:** 2003 onwards we have got into defence business. Please kindly read whatever I am saying in the right context, before 2003 we were only making commercial explosives.

**Kartik Mehta:** So it is not easy, it took you long time.

**Dr. A N Gupta:** Yeah it takes long time to learn, long time to understand because the technology involved in the commercial explosives and in the defence explosive is totally different.

**Kartik Mehta:** My immediate question to this is that it is to be done by a group of intellectual people in the organization and how best are you trying to retain them and have you seen any sort of incident that they have started moving out to some of your competitors, any such incidences.

**Dr. A N Gupta:** Not so far but you don't ask missiles questions. I have people who are working with me for 30 years and above, our company is 35 years old. We don't wish the staff will leave us, it's a family. We are very democratically run and I hope that none of my key people or even junior people leave us.

**Kartik Mehta:** Can you provide a capital employed breakup between explosive business and defence business?

**Dr. A N Gupta:** I don't have that figure on hand now.



*Premier Explosives Limited  
May 21, 2015*

**Kartik Mehta:** And in one of the questions answered you mentioned that you wish to look at the turnover of closer to 400 crores in two years and your CFO concerned that the margin should be scaling up to 15-16%. So how confident you are that in next 2-3 years you would be able to receive these two deadly combinations?

**Dr. A N Gupta:** When you ask me with such questions I have to get out of that, he probably must have said 400 crores but yes we are growing, last year it was 145 crores, it is about 150 crores now and next year started probably will be (+200) crores so like that we will certainly grow and any such opportunity like what you are saying the ammunition and all that comes in we might approach what figure you are saying so I will not be able to confirm anything right now. These licenses have just come, we are studying them, and we are making the plans. It is too early to say anything right now.

**Kartik Mehta:** The ISRO contract, the tenure is probably getting closer to the end.

**Dr. A N Gupta:** Another two years and it is renewable by 10 years.

**Kartik Mehta:** So what should be the revenue contribution of that ISRO to your total turnover?

**Dr. A N Gupta:** This is a difficult question to be not asked.

**C Subbarao:** Both the contracts we have the turnover of 15.5 crores.

**Dr. A N Gupta:** Recently only that second contract has been renamed which has expired in the month of October, has been renewed from the month of March.

**Kartik Mehta:** That is for how many years?

**Dr. A N Gupta:** That is again for five years. We are doing a good job. The people would like to support us but again we have to be competitive because the government contracts are always on risk but fortunately for us the ISRO contract is written there, after 10 years it can be renewed for 10 years on the same terms. So if we have good marks there, we hope, it will be renewed without any further tenders and all that.

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

**Kashyap Jhaveri:** I have a question on your debt which has gone up in this quarter up to about 18 crores now. Though not a very sort of big number but any particular reason why that would have gone up also inventory I mean.

**Dr. A N Gupta:** Yeah it is inventory because some of the products which we produce and in fact that is responsible for the reduction in about 2.7 crores of our turnover and all that is because at the



*Premier Explosives Limited  
May 21, 2015*

last moment BDL was very busy in making arrangement for handing over missiles to the Army and they could not take the last consignment which was due to be supplied during the month of April.

**Kashyap Jhaveri:** And that money would have come in by now, the inventory would have been liquidated?

**Dr. A N Gupta:** It is partially liquidated but still it impacts the previous year.

**Kashyap Jhaveri:** On second question, somewhere in the call you also mentioned about your aspirations to do defence turnover to cross about 200 crores.

**Dr. A N Gupta:** I never said.

**Kashyap Jhaveri:** I guess into one of the questions there was some mention of about.

**Dr. A N Gupta:** It's always liked is somebody puts in a word in our mouth.

**Kashyap Jhaveri:** One last question, you mentioned about that your CAPEX we have not yet finalized but in terms of whatever capacity utilization across products that we have and the number of people or the man power that we have today, let's say whatever orders that probably come over next about 2 years, do you believe that at least on the operating side we are pretty much sort of loaded up at this point of time, we did not probably do too much of an OPEX on those?

**Dr. A N Gupta:** We have no problem, we have trained people, we have 550 people, and they are trained in this. We can always pick some people from ISRO contract, pickup people from Jagdalpur contract and things like that, we have enough trained staff.

**Kashyap Jhaveri:** Could one imply that over next two years we would not have to recruit too many people?

**Dr. A N Gupta:** No we will not recruit.

**Moderator:** Thank you. The next question is from the line of Kalpesh Gothi from Wallfort Financial Services. Please go ahead.

**Kalpesh Gothi:** When we expect Pinaka ones to be open?

**Dr. A N Gupta:** No idea.

**Kalpesh Gothi:** What's your expectation because it's holding for the long?

**Dr. A N Gupta:** I have no expectations at all.

**Kalpesh Gothi:** Any update on Astra Missiles?



*Premier Explosives Limited  
May 21, 2015*

**Dr. A N Gupta:** Astra we are already producing, it is our propulsion system and whenever it comes for the complete qualification trials we would be the only supplier.

**Kalpesh Gothi:** So we are waiting for the qualification, right?

**Dr. A N Gupta:** We are waiting for in the meantime we will keep on supplying them; their order is there with us. They want six numbers we give them six, they want one we give them one, it's like whatever they require we immediately make it in 15 days' time or 20 days' time and supply to them.

**C Subbarao:** We are already qualified.

**Dr. A N Gupta:** We are qualified but it has to be accepted by the Air Force.

It still has to get qualified for getting fully inducted into Air Force. This is air to air missile beyond visible range. As part of the trials we are continuously supplying the propellants for Astra missiles.

**Kalpesh Gothi:** Earlier we have signed an off-set deal.

**Dr. A N Gupta:** Yeah we have and negotiating many of off-set deals.

**Kalpesh Gothi:** So dealt for which missiles.

**Dr. A N Gupta:** I can't tell you.

**Kalpesh Gothi:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vikash Verma for his closing comments.

**Vikash Verma:** Thank you everyone for your participation. Thank you Sir. Malika you can close the call now.

**Dr. A N Gupta:** Thanks a lot. It was the pleasure.

**Moderator:** Thank you very much members of the management. On behalf of S-Ancial Advisors that concludes this conference call. Thank you for joining us and you may now disconnect your lines.



*Premier Explosives Limited  
May 21, 2015*

*For Further queries:*



**S-Ancial Advisors Pvt. Ltd.**  
503, Gundecha Chambers,  
Nagindas Master Road,  
Fort, Mumbai 400 001  
*Email: [info@s-ancial.com](mailto:info@s-ancial.com)*  
*Contact No.: 022 6635 1004/5*