



“Premier Explosives Limited  
Q4 FY2018 Earnings Conference Call”

May 24, 2018



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**Moderator:** Ladies and gentlemen, good day and welcome to the Premier Explosives Limited Q4 FY2018 Earnings Conference Call hosted by S-Ancial Global Solutions Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Rajagopalan from S-Ancial Global Solutions. Thank you and over to you.

**Rahul Rajagopalan:** Thank you Aniket. Good afternoon everybody. I on behalf of S-Ancial Global Solutions welcome you all to Premier Explosives Limited Q4 results 2018 Earnings Conference Call. From the management team we have Dr. A.N. Gupta, Chairman & Managing Director and Mr. C. Subba Rao, who is the Chief Financial Officer. May I request Dr A.N. Gupta to take us through his initial remarks subsequent to which we can open the floor for Q&A session. Thank you and over to you Sir!

**A.N. Gupta:** Thank you Mr. Rahul. First of all, I along with the whole family of Premier Explosives would like to welcome all of you investors and partners to this conference call for the quarter ending March 31, 2018. It is my great pleasure and honour to be able to host this call and update all our partners, the important milestones we have achieved this year. I believe you must have had an opportunity to see our results in the presentation that has been circulated and uploaded in the exchange. I would now present the results briefly for the quarter ended March 31, 2018.

The total revenue is Rs.83.28 Crores in quarter ended 2018 as against Rs.72.43 Crores in the fourth quarter ended in previous year. A growth of 15%. Our operating profit for the fourth quarter in the year 2018 has been FY 23 Crores as against Rs.14.02 Crores in fourth quarter of 2017. Profit before tax stood at 4.09 in the fourth quarter this year as compared to Rs.11.89 Crores in the fourth quarter of previous year. Profit after tax for the fourth quarter is Rs.2.46 Crores as compared to Rs.8.1 Crores in the previous year. Moving to the results for the full year, the total revenue was Rs.265.91 Crores in the previous year as against Rs.230.3 Crores in 2017, a growth of 15.5%.

Here I would like to also give you some information about the consolidated results. Previous year it was Rs.262.45 Crores and current year is Rs.282.53 Crores. We have promised that we should be doing something around Rs.270 Crores and it is certainly better than the previously whatever we have given. Moving to the full year results, our operating



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profit for 2018 has been around Rs.20.02 Crores as against Rs.28.9 Crores in last year. Profit before tax stood at Rs.13.44 Crores in FY2018 as compared to Rs.22.2 Crores in FY2017. Profit after tax for FY2018 is Rs.8.73 Crores as compared to Rs.14.91 Crores in 2017. Total order book on March 31, 2018 stands at Rs.297.6 Crores, explosive business is Rs.159 Crores, defence business is Rs.108 Crores and service sector, which we normally combine with defence because it relates to partly solid fuel complex and partly to Sriharikota, which is space and defence is sort of bracketed together even by the government so the total is about Rs.138.6 Crores that is Rs.139 Crores. With this we now open the floor for questions and answers and I request Mr. Rahul Rajagopalan to please take us through the next stage.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of BV Bajaj for Bajaj Shares & Securities. Please go ahead.

**BV Bajaj:** Good morning to the board and thanks for taking my call. Excellent results, but I have question regarding the profitability and return on the equity though our equity base has increased from Rs.8.85 Crores to Rs.10.64 Crores accordingly our other earnings, but still our margins have fallen from Rs.15 Crores to Rs.7.2 Crores compared to last year. Again I just recall that Rs.300 Crores was a guidance for FY2018 there also we are falling short though earning per share also has fallen to half of the last compared year so can you throw some light on this Sir?

**A.N. Gupta:** Thank you very much Mr. Bajaj. The increase in the capital had been only couple of months back, we were having a capital of Rs.8.55 Crores almost for decades in all that and then we took QIP and preferential share route to increase our capital to over Rs.10 Crores. You cannot expect within a few months the earning per share to increase because the capital has increased, the money is available yes, we are taking up expansion that expansion has to come through and it has to give proper return, so you will have to kindly sort of be patient and wait for one year for the expansion to come through some orders to materialize, the profit should be increased and all that, so this is the time in which we are completing the expansion and the buildings have come for your information, the roof has been cast, while the taller buildings roof is still awaited. We are planning that everything all the roofs have to be cast before the end of June, so that during the rainy season, which starts here in the month of June. We can work inside the building and complete the plastering and erection of equipment, etc., during the monsoon.

**BV Bajaj:** I will draw your attention Sir though equity has increased I did not compare the earning per share, but your margins have fallen compared to last year though gross revenue has gone up



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by around from Rs.238 Crores to Rs.277 Crores, so what was the reason margins have fallen this year?

**A.N. Gupta:** That is a different question altogether and the answer is that in certain areas of Coal India business the selling price has dropped by 10% while the cost is depending upon the market inflation and all that the labour cost and power cost and all other raw material cost and all that has increased by slightly less than 5% that is the inflation rate, which is as per the government books and normal rate of enhancement is around 5%, costs have gone up and the selling price has dropped down.

**BV Bajaj:** Even then our finance cost has gone up by 25% compared to last year?

**A.N. Gupta:** That is the increase in cost because of higher borrowing, which we had to take because of expansion.

**Subba Rao:** Mr. Bajaj actually some of the government business, which we are doing they are taking longer time than expected so our utilization of cash credit has gone up that is the main reason for that and term loan interest on the term loan of Rs.7 Crores, which is there as of March that also is a part of this cost. The other thing is you remember that we were applying for the tenders for ammunition like that, so we have taken additional bank guarantees, for which the sanctioned fee and all that that also is a part of this finance cost.

**A.N. Gupta:** Let me add one more thing. All the banks are charging much higher cost lending fee for making up whatever they are losing because of other factors.

**BV Bajaj:** You are right Sir; they are safeguarding themselves.

**A.N. Gupta:** Whatever they are losing because of inefficiencies of some people they are taking it from the other people.

**BV Bajaj:** It is a natural way, Sir but just now you told because QIP money and preferential issue money is still with you, so are you reducing the debt burden financing or in capex you are putting it. Can you explain Sir where we are?

**A.N. Gupta:** Basically it is going in capex, most of the orders for equipment have been released in paid. When you start building the land has been purchased and the buildings also you have to give advance to the contractors and when you start recruiting people you have to pay to them, so all the expenditure are more or less on the new capex.



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- BV Bajaj:** Are you having any plan for reducing the current liability Sir, which also has increased by almost 22% compared to FY2017?
- A.N. Gupta:** Yes, this is increased because of certain payment, certain changes, which have been made by the client what they call as Ind-AS and I do not understand very well, but I understand that chartered accountants and new guys understand it very well, so I have also asked my chap to give me the old system, which I can understand very well. It will take me little time because I am a technical person, I am not a chartered accountant to understand the Ind-AS system, but because of certain regulations the Ind-AS has been totally implemented by us and our auditors.
- BV Bajaj:** The question lies here only Sir just I will draw your kind attention, that liabilities have gone up from Rs.68 Crores to Rs.84 Crores for this year, same way financing cost has gone up by 25% and parallely we have had QIP money and preferential money even that convertible warrants also we had some money, so with this money management how we are planning because there is no reduction in financing cost, liabilities has not increased, and it has gone up and the money is collected how you are putting this just throw some light?
- Subba Rao:** The point is actually like Rs.66 Crores, which we have raised as QIP and preferential that is the amount which is pointing out, out of the Rs.66 Crores say we have the capex for the 2017-2018 is something like Rs.4.7 Crores and there is Rs.15 Crores CWIP as on March 31, 2018 and another Rs.4 Crores is there as a capital advance, so all that has come to roughly Rs.24 Crores to Rs.25 Crores and we are holding Rs.28 Crores in the bank deposit reserved for the capex. So some amount we have to use for the working capital. So working capital like I mentioned earlier the government parties are taking longer time, but part of it we are recouping through like you are saying increase in the current liabilities that is trade payables that is mainly because of the amounts due to the supplier of our ammonium nitrate and there are some purchases of AN, which we have imported on the LC, so those are the amounts, which we have seen as mainly increasing the trade payables.
- Moderator:** We take the next question from the line of Dixit Doshi from Whitestone Financial. Please go ahead.
- Dixit Doshi:** Good afternoon Sir. I have few questions. First is if you can give any update about the defence ammunition orders, so the deadline was April 12, 2018 and I think this time it was not delayed, so any update on that?



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**A.N. Gupta:** It has been delayed I think now the defence RFPs have been from March to April, April to May and it has been in the month of April month only that we have quoted for them, but having received the RFPs they are working very hard in fact there is a meeting going on today with our people they have gone Mr. Chowdary and Col. Pathak they are in Delhi, right now they are meeting MoD people regarding some clarifications and some additional documents they required for the two projects, which we have quoted that is BMCS and 30mm ammunition, so I hope that if they maintain this tempo will be able to come and see the order soon and we have also sort of if you have read the DefExpo as well as our own site that joint venture has been announced by next ammunition with our company and we are actually forming JV with them and the technology will be taken from them regarding the Bi-Modular Charge System BMCS and for 30mm we are taking technology from Premier PTL that is Paramahansa Technical Limited that is through a Serbian company called Yugoimport and we would form the joint venture with them. But all that will come into picture after the project, which is going on, right now we are making facilities for overheads, bombs, for the missiles as well as for Bi-Modular Charge System. The construction is going on and is going on at a very good speed because we have to catch them before the cast roof before the monsoon sets in this area. This area normally the monsoon month starts from the middle of June till September if we do not start the building roof then work will be really affected by the monsoon.

**Moderator:** We take the next question from the line of Sailesh Kumar from Sunidhi Securities. Please go ahead.

**Sailesh Kumar:** Thanks for the opportunity. My first question was there was announcement in media that Defence Ministry is planning to spend close to Rs.15000 Crores spread over 10 years on various ammunitions. So what kind of revenue potential do we foresee for ourselves starting from FY2019 onwards over say next two, three-year period?

**A.N. Gupta:** Just Rs.15000 Crores is the amount, which has been allocated for preparing the country for attended intense warfares and this will be sort of spent on existing suppliers whether Indian or foreign and not for the new purchases from the new established Make in India program. That is for your clarification, but we are going ahead with 30mm and also we want to add to our kitty 40mm for which we have been receiving lot of enquiries from abroad and these two would be added to our ammunition plan. We hope that after completing the buildings in the month of July or August we will be able to do the trials in all that and before the financial year end we would be able to get some contribution from 30mm and 40mm ammunition.



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- Sailesh Kumar:** Sir what is our outstanding capex as far as FY2019 is concerned and what kind of revenue we are seeing for ourselves in FY2019?
- Subba Rao:** Like I told you during the current year that is 2017-2018 we spent Rs.4.7 Crores some capex, some various projects including commercial of course, but the CWIP, which is Rs.15 Crores approximately as on March 31, 2018 that is mostly for the defence. The total capex outlay for the projects at the Katepalli site of course this is still I estimate something like Rs.50 Crores, so it may take may be until buildings by June we target to complete may be another two, three months to order and some of the machines will start coming, but let us say by December the project equipment and all that should be in advanced phase, so after that, for current year it is not expected so big, but somehow the projects, which we complete can really produce something like propellants something may add up but some of them will be have to wait for FY2019-20 to see the turnover from the project.
- Sailesh Kumar:** So any rough guidance for FY2019?
- A.N. Gupta:** We have been doing something like from 2015-2016 for 15% to 20% addition every year I think this tempo we will try to continue and 2018-2019 also we will expect of something around 20% increase in the turnover.
- Sailesh Kumar:** Just one last question if you may permit, what is the contribution of Coal India in FY2018 turnover and how much it contributes to outstanding order book?
- Subba Rao:** Number wise I cannot tell you exactly, but roughly it will be 50% of our turnover will come from Coal India, Singareni Collieries, those kind of mining companies.
- Sailesh Kumar:** And outstanding order book what is the contribution in percentage terms?
- A.N. Gupta:** Outstanding will be more from defence of course Coal India also is there, but big amounts are from defence.
- Sailesh Kumar:** Thanks.
- Moderator:** Thank you. The next question is from the line of Abhishek Shah from Valcore Capital. Please go ahead.
- Abhishek Shah:** Thank you for the opportunity. I had a few questions. One I wanted to dwell into the margins per traction that first participant asked, so just wanted to check are the margins in defence intact or we have seen some margin compression there also?



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- A.N. Gupta:** No, there is no compression in fact because this is the first time that we are supplying to the defence and for them also this is the first time that they are buying from domestic market, the quantities of products and all that outstanding are high. To tell you figure, almost Rs.19 Crores is pending from Indian Air Force . Indian Air Force forward their bills to CDA and CDA will make payment to us, it is all getting delayed, Rs.19 Crores is outstanding from one single customer that is Indian Air Force and like you said initially somebody asked me the question that outstanding position is Rs.70 Crores it is because of less purchase and all in the month of January, February, March, they do not make payment because they did not have any budget allocation, they have to wait till April and May when the budget is allocated to them and they start making payment. These are nuts and bolts sort of a thing, which we cannot explain to you in future why outstanding has become more. There is a good margin, but if you take the total interest and everything on that.
- Subba Rao:** Margins come down indirectly.
- A.N. Gupta:** It is like we are supplying things to Air Force at no profit, no loss basis, but it is a thing something, which we made in a good progress that nobody came forward to supply chaff and flares and we have started and set the ball rolling. Now the chaff has become totally our product, we got the best results from there and all that and for the flares right now our collaborator from France is visiting our factory and they are working hard yesterday and today and probably tomorrow, day after tomorrow they will complete their compositions and all that they can go by the flares. Then we will start participating in that, in fact the Air asked why you are not supplying the flares to us. We are incurring late delivery penalty because of the technical specifications of flares. We are trying to achieve that output with the help of our collaborator in France right now and somehow close the issue.
- Abhishek Shah:** Got it. Sir my second question is you said we have bid for two products recently in May, so what would be the bank guarantee that we will be giving for this?
- A.N. Gupta:** Bank guarantee changes from product to product, but for BMCS how much we have given?
- Subba Rao:** Close to 5.7?
- A.N. Gupta:** About Rs.6 Crores.
- Abhishek Shah:** About Rs.6 Crores of bank guarantee?
- A.N. Gupta:** Earlier it was Rs.60 Crores so when we made representation to the **MOD** who reduced the bank guarantee amount.



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- Abhishek Shah:** Does that mean that the order that we are bidding for also goes down significantly or the order size will still be the same?
- A.N. Gupta:** Order size is same. What they had done was they have taken 10 years order and apply 10% of that that means one-year total order was supposed to be the bank guarantee. When we brought this fact to their knowledge, they have revised the BG quantum to one tenth of every year's order.
- Abhishek Shah:** So these are basically 10 year orders that we will be bidding for and once we get them we are fixed for 10 years?
- A.N. Gupta:** Correct.
- Abhishek Shah:** Second is any order from ISRO for stepper motors after we finished our first successful trial in January?
- A.N. Gupta:** We have done this trial very successfully and it has been acknowledged and the team is coming here on June 1, 2018 and June 2, 2018 for discussion and now the order will not be placed by SHAR, now it will be done by VSSC, which is also a part of ISRO Vikram Sarabhai Space Centre. That team has been made and the dates have been given to us, unfortunately on those dates we are going abroad, so we have requested for the alternate dates as 17 and 18 most probably it will be agreed upon. Verbally we have talked to them they said okay because on 30<sup>th</sup> we are going to Europe for completely understanding the technology for BMCS and 30mm for the project.
- Abhishek Shah:** So the two products that we have bid for so how many other players are there in competition for this one?
- A.N. Gupta:** For BMCS there is only one competitor and for 30mm there are two more competitors.
- Abhishek Shah:** Got it. One is, we have got CWIP for this year is only Rs.15 Crores when you said that it will pass another Rs.50 Crores by the end of this year, so alongside what is the status on the tie up with Nexter?
- A.N. Gupta:** We have already formed the company called PELNEXT it was put on the board on our site, it is formed as 100% venture of Premier Explosives Limited and as soon as they get the approval first thing you are making a quotation to Government of India, second is they have also written to the Government of France and now as soon as they get permission they have already got the permission from their board that is why it was declared in DefExpo and now



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they have applied for the government permission as soon as they get the permission from their France Government, they will participate in our 100% venture project.

- Moderator:** The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Good afternoon Sir. When does the price escalation clause in Coal India contract kicks in, so how do you see margins for bulk explosive next year?
- A.N. Gupta:** For the current year as you know that there is a clause to tie up with ammonium nitrate price, but that price has taken quarterly what happens is one quarter if they ammonium nitrate people may increase the price just after that quarter is over then we lose for two months and all that they increase the price just before quarter is ended begin the price, so it is a question of balancing the whole thing, but there would be a clause because it has been a practice for the last three years that there would be a price escalation clause tying up the ammonium nitrate prices. Have I answered your question or anything?
- Jasdeep Walia:** No Sir, I got my answer. What is your target sales for defence in FY2019 excluding the services part of the business and what will be the major drivers of defence sales in FY2019?
- A.N. Gupta:** Major will be propellants and countermeasures that is chaffs and flares and there is a new product, which we have done for the army that is Air Target Imitator ATI, which has been recently cleared by the QA agencies and we are the only Indian bidders for that particular product, so we hope that order will come to us and our total for 2018-2019.
- Subba Rao:** 15% to 20% overall, out of that we are hoping defence will be more because of the ground realities, which we are seeing now.
- A.N. Gupta:** Defence will be about 50% of the total.
- Jasdeep Walia:** Of the total revenue for FY2019?
- A.N. Gupta:** Yes.
- Jasdeep Walia:** Sir this is including services part also or excluding services?
- A.N. Gupta:** Including services, when we say defence we are always feeling like it is including.
- Jasdeep Walia:** Got it and Sir when does your order book start improving because your order book has been flat since the last three quarters now?



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- A.N. Gupta:** It is not slashed.
- Jasdeep Walia:** For defence business only?
- A.N. Gupta:** It is around Rs.300 Crores, commercial is about 159 and the balance is defence.
- Jasdeep Walia:** I am only taking about defence order book?
- A.N. Gupta:** Yes, defence – the order book situation is not applicable for us in the sense that for the sake of, because questions are being asked we make the order book because orders keep on coming and getting completed, so this is not something like, which is continuously required and all that. We would be clear, which will come and the order will be placed and then we will keep on supplying and it will be the order book, it is a very sort of a misnomer for this particular industry.
- Jasdeep Walia:** Got it and what kind of scale up you are expecting in Akash missile order next year?
- A.N. Gupta:** Akash we have completed whatever we have. We have so far supplied something like 1921 grains, when we did the last sort of a review and 240 order has been received only a couple of days back and we are waiting, but while we are waiting there were some raw material, which are already qualified for the earlier order, so we have started manufacturing. Last month we believe that something like 100 grains of Akash booster to BDL and we are more or less on the target as far as Akash is concerned.
- Jasdeep Walia:** Sir next year 240 kind of numbers will be executed for Akash?
- A.N. Gupta:** I do not know, we are waiting for, what we hear is another 2000 are being released because Akash. I am very proud to say that, it is 99% indigenous number one, number two is it is the cheapest available missile in India.
- Moderator:** We take the next question from the line of Abhijith Vara from Sundaram Mutual Fund. Please go ahead.
- Abhijith Vara:** Just clarification on the JV you have formed with NEXTER, has the shareholding been decided, how much you will hold and how much NEXTER will hold?
- A.N. Gupta:** I think there are very strict guidelines from the government and you cannot change that, it is 51% Premier Explosive and 49% foreign holding.



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**Abhijith Vara:** Sure Sir, so second question for Brahmos in the last conference call you had mentioned there were some enquiries for the propellants, which were placed with the Premier Explosives?

**A.N. Gupta:** Brahmos, we had received the enquiry and we have quoted for it, we are hoping that they would finalize and technology will be transferred to us and we restart producing, but all these take very long time, much longer than what we anticipate or what we look forward to?

**Abhijith Vara:** Sure Sir. I think there is some momentum at least in terms of the communication you have?

**A.N. Gupta:** Yes, there is some momentum, you are right and that is why there are lot of things, which you can add and we can talk about, but all that may or may not be transferred to the balance sheet during the current year. We are also having enquiry for Pinaka, we are having enquiry for Astra, we are having enquiry for MRSAM, there are so many things on which we are working together and I think I am very happy to tell you that our insulation material has been approved and we have received an order for one of the missiles for lining the missile. Yesterday only we received the order. That value is very low, so it is not within the 10%, which we have to declared to this thing, but yes we have received an order for lining of motors, this is the second time we have received the order for lining of motors, so our insulation plant would be now getting more and more orders from the various other entities.

**Abhijith Vara:** Sure Sir. All the best Sir.

**Moderator:** Thank you. The next question is from the line of Santosh Y from India Nivesh. Please go ahead.

**Santosh Y:** Good afternoon. First question, the defence revenue that you are planning to book in FY2019 will you picking the same plant Indian force or some other defence ministry participants?

**A.N. Gupta:** Actually our plan is for all wings of MoD, but Indian Air Force countermeasures, they did not have any suppliers and stocks were very, very low, so as soon as we quoted for chaff, which was taken and we have received another enquiry from Indian Navy and we have participated in that.

**Santosh Y:** The question is that we had receivables of almost 90 days at the end of FY2017?

**A.N. Gupta:** Rs.19 Crores.



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- Santosh Y:** And now we are sitting on a receivable days of 134 days?
- A.N. Gupta:** Well, I think, one of the order is more than 180 days anyway that is supplied in 2017, but this is all come in probably in next two, three days or four days' time was Rs.19 Crores.
- Santosh Y:** Even if with the new orders also will there be such elevated working capital cycle, do we need model into our estimates 130 days, is it a new normal now going forward or how should we look into Sir that is why I would like to understand?
- A.N. Gupta:** I think you are very creative person, but as far as I am concerned we have 30 days' time in the order and we want the payment to be done in 30 days of receipt by them.
- Santosh Y:** Second question, can you please give up a split of 50 Crores of capex that we plan to spend in FY2019, what all areas in the forward integration and backward integration that you intent to spend?
- A.N. Gupta:** Totally is forward integration that plant at Katepalli what we have got 50 Crores is only forward integration. Of course it will include some other raw material, we can call it backward integration or whatever it is, but it is not backward integration, it is forward integration because these products are new products and additional facility for propellant product, which is our core competence.
- Santosh Y:** Lastly what is the CFO for the year, Cash Flow from Operation for FY2018?
- Subba Rao:** You will see that, you can take from the P&L, add the depreciation and the capex also is there.
- Santosh Y:** Got it Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.
- Shekhar Singh:** Just I wanted to understand the forward integration capex that you are doing, what is that going to add to the revenues in terms of like how many Crores or what exactly should we be expecting as shareholder?
- A.N. Gupta:** Revenue depends upon the price and the quantity. Initially there would be trials and then there will be acceptance and all that, so this is only visual thinking that we have to sort of



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do for 2018-2019, but certainly it will be in the range, which we talked about around 20% higher than the current year.

**Shekhar Singh:** What I was trying to understand is like of the capital debt you are putting in, what is the asset turnover that you are going to get, asset turns that you are going to get Sir?

**A.N. Gupta:** It is difficult to answer that question and I do not think it is possible for anyone to answer this question, this amounts to crystal glass sort of a thing, your estimate is as good as mine.

**Shekhar Singh:** Lastly Sir just wanted to know like these orders, which are coming from defence whether it is Army or Air Force, these are one time orders or they will be once you have got empanelled then you will keep on getting it year after year?

**A.N. Gupta:** Yes, I think what you said last, this is the time they give the orders and then it will be repeated. As the material is consumed, they will keep on repeating and say like for order for chaff we first supply to Indian Air Force 4-Crore order then it was followed by something like 20-Crore order, then Navy is now coming into picture and there will be further orders from Army, so it is a chain reaction nobody knew that there are some Indian company who can supply a chaff, it was only being imported from UK or from other countries, so once you know that indigenous source is available to them and it is a question of **spread** by mouth, we talk, we participate in some of the exhibitions, in seminars and all that and also the Air Force tells the Navy, Navy tells the Army and all that and you find that more enquiries are coming.

**Shekhar Singh:** Just in terms of operating profit margin, the margin rate we can expect, so there has been a very sharp drop in the current year?

**A.N. Gupta:** I know, I am also surprised about this, that is why because in current year we had changed over from the old system to Ind-AS system, now here the losses, which are like the cost inventory, cost outstanding and so and so forth, which I am not able to understand very well, so I have also asked my CFO to give me this figure, so that we can. If you see actually made more than Rs.14 Crores profit, but in the publication it is less than Rs.8 Crores.

**Subba Rao:** Comparable there is 13.94 something.

**A.N. Gupta:** So what happens is because of this change in the system from the old system to Ind-AS and also that we have not been able to perform so well and all that, the figures look very, very low, but they are not so depressing.



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- Shekhar Singh:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukherjee from India Nivesh. Please go ahead.
- Sabyasachi M:** Thanks for your opportunity. My question is again on the lines of in the operating margin, we see that the defence business contribution to the total revenue has been going up from 20% in FY2017 to 27% to 30% in this year FY2018, but margin contraction, there has been a margin contraction on the EBITDA margins around 500 basis points, so if my understanding is not wrong defence is a high margin business. Going forward if defence should contribute around 50% of the total revenue my EBITDA margins will remain in this level or it will improve in the future?
- A.N. Gupta:** If your outstandings are something like six months you can expect the same sort of thing, but I hope that we will learn how to deal with them and they will learn how to deal with the private industry and this payment will get smoothened.
- Sabyasachi M:** I am asking on the margins, not the receivables front?
- A.N. Gupta:** Margins includes everything, it also includes what is the total interest loss because of the business, should we tell you what is the total cost and what is the cost and all that and separately give what is the interest loss?
- Sabyasachi M:** It would be beneficial for us if you give profitability in the defence segment and the explosive segments?
- A.N. Gupta:** The present formula or format, which has been given by the SEBI does not provide for me to give you anything additional or anything less than what is given, so we are bound by that and we can give you only what is required to be given, am I right?
- Sabyasachi M:** Understood. One last question, on the receivable front, there has been a delta increase of 40 Crores from last year FY2017 to FY2018, whereas the defence business grown somewhere around 48 Crores to 72 Crores, that is the delta of 24 Crores, can I assume is it a fair assumption that out of this 40 Crores of receivables increase mostly it would be on the defence business on the receivable front?
- Subba Rao:** Yes that we already answered I think two, three times in this conversation, so some of the questions are being repeated I guess.



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- Sabyasachi M:** So majorly from defence business only?
- A.N. Gupta:** Correct.
- Sabyasachi M:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi:** Thanks for the opportunity, so most of the questions have been answered, just one more thing, so you mentioned that we have quoted for BMCS in 30mm ammunition, so will there be any new tenders like I just want to understand that let us say once these orders will be finalized will there not be any further orders for 10 years or some new orders or new ammunition products will keep on coming every year?
- A.N. Gupta:** Yes, they will keep on coming and this order is to encourage the private industries to put up a plant and for 10 years that is the reason they have made this as a minimum order, along with that we can export, we will keep on getting more enquiries, like in the same period now we have received one enquiry from Ordnance Factory Board, we have also some enquiry from abroad, so we would be participating in all of them.
- Dixit Doshi:** In our JV with NEXTER the only BMCS will be involved there and 30mm will be done by ourself or both the products will be in JV?
- A.N. Gupta:** As far as NEXTER is concerned it is BMCS and some other ammunition they said one at a time that means that we will make concerted effort for making BMCS after that they will be adding one more product and all that and 30mm is different because it is soviet era grenades with a different company.
- Dixit Doshi:** Thank you.
- A.N. Gupta:** NEXTER makes only NATO grade.
- Moderator:** We take the next question from the line of Vatsal Shah from Sushil Finance. Please go ahead.
- Vatsal Shah:** Good afternoon Sir. Question is actually while we have made a lot of progress in developing the products and getting the approvals, do we see any action on the competitive



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side also or other players also coming out with similar technology products, anything on that?

**A.N. Gupta:** Lot of people are trying and everybody as I said keep on thinking that anything to do with defence has got a very good high margin and all that, so a lot of people are jumping into the fray, but basically there are two serious players that is ourself and solar explosives, who have got all chemistry as well as handling of this type of product and Ordnance Factory Itarsi is the third player, but unfortunately so far nobody has been as successful as we, so we have been supplying to the different sector, DRDO as well as the defence.

**Vatsal Shah:** Another thing is while Bharat Dynamics is also listed now, I believe the LRSAM that is where our customer is, so they were mentioning that the Akash order is likely to be pushed into 2020, so is that the case or do you feel that it will fructify soon?

**A.N. Gupta:** Which one Akash already we are doing?

**Vatsal Shah:** Not Akash sorry the LRSAM, the long range surface to air missile?

**A.N. Gupta:** LRSAM is being replaced by MRSAM that is medium range surface to air missile, both have got similar product back end is same and the front end is changing, so most probably MRSAM will come first. The order for 500 numbers is being processed by them and I do not know when they will come because we have been getting that quite sometime, so I think the order should be released anytime now. BDL is only integrator, they do not manufacture anything, so they buy from us or from some other vendors and integrate the whole system into a missile and sell it to the user.

**Vatsal Shah:** Can I ask one last question?

**A.N. Gupta:** Yes, please.

**Vatsal Shah:** I wanted to understand, so as we have mentioned that the margin on the commercial explosive has gone down because the cost going up, so which is a variable, is it crude related or which is the largest variable for this cost?

**A.N. Gupta:** The variable cost in case of our explosives for commercial sector is ammonium nitrate and it is related to the crude as well as it was related to the gas prices, so as you see so much of volatility in the price of diesel and petrol, the ammonium nitrate will also follow this soon, but fortunately for us it is related to our selling price of this ammonium with the buyer, so the effect of increase and decrease is taken care of, but there is always a time delay between



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the increase by the petroleum company and by the Coal India, which I also mentioned during my talk to you now.

**Vatsal Shah:** Yes, okay, fair enough Sir. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

**Jasdeep Walia:** Sir I believe your ammonium perchlorate manufacturing facility is also coming on line possibly in FY2019, so should we see some revenues from there and what could be the quantum?

**A.N. Gupta:** Ammonium perchlorate is already on our product list and we are using it for self consumption right now, but we have sort of made a request to BDL that they may permit it to be used for the production of Akash, I understand that it has been processed, so that comes through it is okay. Similarly, we got an order from TBRL, which we are executing it is our product and also we have received some enquiries for supply of ammonium perchlorate to HEMRL, to ISRO and soon we will say that we have to go for expansion in that particular product.

**Jasdeep Walia:** What could be the external sales of ammonium perchlorate in FY2019 if you would quantify?

**A.N. Gupta:** Well unless it is approved by these people we are not able to quantify it.

**Jasdeep Walia:** When will the approval process be over?

**A.N. Gupta:** I hope I can answer that question to you and to myself.

**Jasdeep Walia:** You are also getting to warhead manufacturing, so I believe some testing was going on with regard to that, so what is the status of that venture?

**A.N. Gupta:** Warhead testing not by us, but we quoted to some foreign country for warhead, also quoted to our own buyers in this area and we would be soon in the warhead for use.

**Jasdeep Walia:** Would that start in FY2019?

**A.N. Gupta:** Before that in 2018-2019 itself yes.



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- Jasdeep Walia:** Got it and Sir these warheads are meant for what kind of use; this is for missiles or what kind of use are they meant for?
- A.N. Gupta:** Basically warhead is for missile, but when we manufacture for warhead we can also manufacture for mines as well as for the bombs and all that. Warhead is something, which does damage during the war, so it could be a warhead for missile, it could be warhead for the rocket, it could be warhead for any of these things, which are used by our MoD.
- Jasdeep Walia:** Got it. Thank you. That is all from my side.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Rahul Rajagopalan for closing comments. Over to you.
- Rahul Rajagopalan:** Thank you Aniket. On behalf of S-Ancial Global Solutions I thank Dr. Gupta and Mr. Rao and all the participants for joining us on the call today. Thank you and goodbye.
- A.N. Gupta:** Thank you.
- Subba Rao:** Thank you very much.
- Moderator:** Thank you. On behalf of S-Ancial Global Solutions that concludes this conference. Thank you for joining us. You may now disconnect your lines.