



“Premier Explosives Limited
Q4 FY2019 Earnings Conference Call”

May 20, 2019



**ANALYST: MR. NIKUNJ SETH - S-ANCIAL TECHNOLOGIES
PRIVATE LIMITED**

**MANAGEMENT: DR. A. N. GUPTA – CHAIRMAN AND MANAGING
DIRECTOR
MR. C. SUBBA RAO – CHIEF FINANCIAL OFFICER**



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Moderator: Ladies and gentlemen, good day and welcome to the Premier Explosives Q4 FY2019 Earnings Conference Call hosted by S-Ancial Technologies 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. Nikunj Seth from S-Ancial Technologies. Thank you and over to you Sir!

Nikunj Seth: Thank you Steven. Good afternoon everybody. I on behalf of S-Ancial Technologies welcome you all to Premier Explosives Limited Q4 FY2019 Earnings Conference Call. From the management team, we have with us today Dr. A.N. Gupta, Chairman and Managing Director, and Mr. C. Subba Rao, who is the CFO. May I now request Dr. A.N. Gupta to take us through his initial remarks subsequent to which we can open the floor for Q&A session. Over to you Sir!

A.N. Gupta: Thank you. Today I will review the current financial results. I am happy to inform you that profit after tax has gone up to Rs.16.32 Crores in 2018-19 from Rs.11.73 Crores in 2017-18. Though there has been decline in turnover improvement in profitability is with higher margin products in defence and increase in pricing of certain commercial products.

Defence and Commercial explosive business opportunities - our focus on defence products would continue. We are finding good opportunities in counter measures and to cater to the expected demand for these products we have been developing our own technology with financial and technical support from the overseas supplier. In certain areas we are also importing critical components.

Update on Katepally project expansion - We have completed major work on Katepally capital project where we would produce solid propellants, RDX, HMX, ammunition and other products. We have already submitted our plans to our propellant and land mines to CCE for approval. RDX and HMX plants are getting ready and we will be submitting plans for grant or license to CCE during this month.

The order book as on March 31, 2019 stands at Rs.388.34 Crores and Rs.95 Crores is expected from defence probably this week or by the next week. Explosive business order book is Rs.152.07 Crores, Defence at present Rs.51.27 and as I told you earlier about Rs.95 Crores for Flares and Air target imitator during this week or next week. Services business is Rs.185 Crores.



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We will deal with more details during question and answer session, but I would like to mention here that two of our employees have been awarded PhD degrees in the material sciences by Gulbarga University. The knowledge and insight would help the company in development of new products and process opportunities. Now I request our CFO to give you financial numbers.

Subba Rao: Good afternoon everyone. Since we have already submitted the details of P&L in our result format to the stock exchanges and www.pelgel.com I would be very brief in my numbers, you would have already noticed that the EPS for the year is Rs.11 per share compared to Rs.8.42 during the last financial year. This is even after some increase in the capital in January when we have allotted 1,15,100 equity shares against warrants. On a full year basis our operating profit has been Rs.23.43 Crores as against Rs.20.02 Crores in the previous year. PBT that is profit before tax is Rs.16.32 versus Rs.13.44. PAT is Rs.11.73 Crores versus Rs.8.73 Crores one year back. Regarding the Katepally project or capital projects altogether say as of March 2019 our CWIP is Rs.34.52 Crores and capital advances is Rs.5.29 Crores. Most of this amount is towards Katepally project. We have also spent Rs.4.32 Crores for transfer of technology towards new propellant to be made at our Katepally plant. With these few words we now open the floor for question and answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abhishek Shah from Valcore Capital. Please go ahead.

Abhishek Shah: Sir just some basic questions on the business actually if you split further in terms of explosives, industrials and the defence, maybe in the next two years what sort of visibility are you seeing in each of them and how do you see the proportion shape up we were talking 20%-25% growth earlier say two years back and nothing of that has actually bind out well I understand some of it would be on defence side with the government orders not coming in place, but how are you seeing some level of visibility on each of them and perhaps if you could just explain how is the competition on the explosive side?

A. N. Gupta: Good questions from you. As far as commercial explosive is concerned, we had good orders and we are getting orders, which we think is acceptable as far as profitability is concerned that we are accepting and we are not accepting any orders, which are not likely to make it good profit as well as which are questionable. On defence though the main 7 or 8 RFPs have got delayed, but there has been a very good demand for things like Flares and Chaffs and all that for counter measures. After particularly the incursion of our pilot Abhinandan



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into Pakistan border and his return from there and they had been regular and in fact too much of followup for supply of these though they were very little orders. We got good orders and good enquiries and that is why we said that about Rs.84 Crores is from Flares and Rs.12 Crores from ATI that is Air Target Imitator, which is expected in this week or next week. Why I am saying this week because we have already gone to Delhi and signed the contract and it is their signatures are required and they would be posting the orders contracts along with the papers. Normally they do not hand it over to our representative and he goes to sign the papers. We have already made the bank guarantee and other things financial actions we have taken, we are only waiting for the formal order. As far as Chaffs are concerned we have entered into an agreement with our principal in France and other places and Flares we have developed with the help of one foreign company, we have normal IR flares plus expected flares also, we have had very good results yesterday and before that and only to be confirmed today and will be ready to supply. As far as production equipment is concerned, we have placed an order and it is expected to come either today or tomorrow.

Abhishek Shah:

Sir what will be the timeline for these orders to be executed once we have them in hand?

A. N. Gupta:

Timeline for execution is two years, but they say that it should be done as quickly as possible they probably like to complete it as early as possible as they say. Now we have to start from 0 to the maximum production, we have to ramp it up and we have to. The usual delays of ramping up would be there, but I hope that we would be able to go to the full production within one month or two maximum.

Abhishek Shah:

Understood. This year can we expect to probably get to at least Rs.100 Crores in defence or may be higher?

A. N. Gupta:

Most probably yes.

Abhishek Shah:

And would this order that in chaffs and flares we are talking about, do you expect any delay with maybe let us say in a case where the government changes and you have the opposition coming in with would that change any picture for us because that would lead to a lot of uncertainty right?

A. N. Gupta:

No, these are firm orders in hand and execution does not depend upon the government and from the exit polls the government is not going to change.



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- Abhishek Shah:** Fair enough. On the industrial explosive side earlier we used to have some intense competitions coming and you said that this time the orders that we have taken and order book so you expect margins to be good and to what extent what would be the margins profit that you are looking it?
- A. N. Gupta:** See presently major orders from Coal India, we are not accepting those which are with lower margin or with questionable margin, we are accepting only orders, which are with good margins and we are concentrating more on export as well as on supplies to the private customers.
- Abhishek Shah:** Okay at least little 7% or 8% margin for us in this business?
- A. N. Gupta:** Yes we hope that the margins, which we have sort of achieved during the last quarter would remain.
- Abhishek Shah:** Okay that is pretty good. I think that is all from my side.
- Moderator:** Thank you. The next question is from the line of Sriram S, an Individual Investor. Please go ahead.
- Sriram S:** Just wanted to find out in your case the entire sales is to defence right?
- A. N. Gupta:** I think we have both streams commercial as well as defence.
- Sriram S:** How much would be from defence and how much would be from commercial?
- A. N. Gupta:** We like to increase the defence as much as possible and reduce at commercial, but presently Mr. Subba Rao will give the figures.
- C. Subba Rao:** Yes like it was already mentioned in the presentation, out of Rs.240.93 Crores total operating revenue explosives are commercially Rs.154 Crores so balance is out of the defence and space that includes both products as well as O&M services, so Rs.154 crores out of Rs.240 crores is something like 64%, so 36% is coming out of defence currently.
- Sriram S:** And the aim is to now take that to how much over the next two years?
- A. N. Gupta:** The aim is to get the 100% on defence, but at least 65% to 70% during the next year.



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- Sriram S:** Since I missed the first because I joined in a little bit so apologies for that and what is the kind of growth that you are expecting in sales over the next year or two, can you give me a broad idea, as I said my apologies I missed the conference I joined in around 10 to 15 minutes late?
- A. N. Gupta:** Well our aim was 25% last year, but we ended up with minus figure slightly reduction in that because of accounting system, earlier the excise duty was supposed to be the part of the turnover, which was not there for more than three months. Apart from that there has been certain delays in the orders coming from defence because of the elections and because of other reasons, which you know that you can ask and now that government will be stable and it will be having no doubts for the next five years so we hope that the empty coffers of our arm forces would be filled up and the orders will be taken care.
- Sriram S:** And you said as I logged in you have signed some deal or you are in the process of signing something with the order was signed or something like that?
- A. N. Gupta:** Yes I told that Rs.84 Crores the order for chaffs and flares, it has been signed by our person in Delhi, but it will be signed by the government representative or MOD representative and send it by post and another order for Air Target Imitator, which was signed with MOD, which will be expected anytime.
- Sriram S:** And the EBITDA on the defence and the non-defence, would defence give you a better EBITDA or would commercial give a better EBITDA?
- C. Subba Rao:** Certainly defence will be better, but it is difficult to segregate because our operations are combined with all the employees and all that in a single plant kind of place so it is difficult to calculate very precisely where is what. Overall it is improving as the defence percentage of total turnover goes up so that will help us in getting a better EBITDA.
- Sriram S:** And this Rs.84 Crores what would be the duration of supplies it six months or is there any timeline for which you have to supply these things?
- C. Subba Rao:** Yes this is already answered by our CMD to the earlier question, he told at that time it is like two years.
- Sriram S:** Two years, okay. So from what I have understood Sir is that you are hoping for at least 15% to 25% growth from the current years for FY2019-FY2020 with a similar EBITDA as it has been for the last couple of years.



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- C. Subba Rao:** Correct.
- Sriram S:** Right Sir, no more questions. Thank you
- 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 again. Sir could you give us an update on may be the status of orders for LRSAM, MRSAM and SRSAM and may be Astra?
- A. N. Gupta:** Right now Mr. Chowdary is in discussion on the prices of MRSAM and booster grains for Akash and as far as Astra is concerned, we have received the enquiry and we have made the quotation and all that and we are hoping to have the discussion as early as possible probably in two weeks' time.
- Abhishek Shah:** Okay because that has been going on may be nothing has sort of coming out in terms of orders so some visibility what could be the size of opportunity that we are looking at?
- A. N. Gupta:** Sorry question is not clear, can you repeat it please?
- Abhishek Shah:** Sir I am saying what would be the size of opportunity that we are looking at for each of the LRSAM, MRSAM, SRSAM and may be Astra missile?
- A. N. Gupta:** See LRSAM and MRSAM has been put together. LRSAM is now taking a backseat and MRSAM is the one which is going ahead with that because the composition of propellant for both LRSAM and MRSAM is same and there is an opportunity for new propellants, which are coming through and until and unless they come and the order is in hand it is very difficult to sell it.
- Abhishek Shah:** Sir, we were looking for a technology tie-up on the ammunition side that is why I came for a Katepally plant, any updates on that, everything has done, signed and ready I think from NEXTER is what we are looking at some point?
- A. N. Gupta:** See NEXTER will not give technology until and unless they get the order finalised by the MOD and that RFPs are still in the same stage, we have received number of enquiries on technical side and we have replied to them so with the government coming back into place and next five years mandate we hope that those orders will be cleared.



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- Abhishek Shah:** Okay so as of now it is just a wait and watch situation for us until anything pans out?
- A. N. Gupta:** Correct you are right, as far as BMCS is concerned it is wait and watch. As far as 30mm and 40mm is concerned it is a wait and watch plus we are expecting some orders from the quotations we have already submitted.
- Abhishek Shah:** Okay understood. Sir once we get an order gently how much time does it take for us to get an approval from NEXTER and start the production and is that again a long gestation further?
- A. N. Gupta:** It will take at least six months and all that if there is a technology which has to be supplied by the overseas partner to us, but most of the things are in place.
- Abhishek Shah:** Okay and current status of Katepally plant commissioning and what could be the turnover potential assuming we spent about Rs.100 Crores on that?
- A. N. Gupta:** No, I think we have given you all the details.
- C. Subba Rao:** Like I already mentioned the CWIP as on March is Rs.34 Crores and capital advance is Rs.5 Crores so that came to at around Rs.40 Crores may be another Rs.10 Crores also will go into that, so totally around Rs.50 Crores will be spent on that.
- Abhishek Shah:** Fair enough and turnover potential of that would be?
- A. N. Gupta:** Katepally papers for propellant and mines, we have already submitted for grant of license to the chief control explosive. As far as RDX, HMX and other things like ammunition and all that we are likely to submit the papers by end of this month. Only final touches are being given and also for preparing papers for grant of license.
- Abhishek Shah:** Understood and what is the update on ISRO in terms of the SHAR motors that we are looking at, any update on that, any progress there?
- A. N. Gupta:** These are also government department, there has been very little, initially when they want you to make the investment and all that, they said that they required it yesterday, but for one year, two years we have not heard anything from them. The latest had been that there are one or two meetings, which have been held at Bengaluru, which we attended and we went there and attended that, so they are not very clear on how they are going to progress, are they going to have a JV or they are going to give it on contract and things like that, so once



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they are clear in their mind or the government instructions are given to them, we are waiting for them to take a share.

Abhishek Shah: Understood. Fair enough Sir. That is all from my side. Thank you.

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

Vatshal Shah: Good afternoon Sir. I just wanted to ask can you give us some more light on the process of applying for licenses, so is it exclusive or tomorrow someone else can also come and apply for that or now that it has been awarded to us there will be no more contenders for that, I just wanted a general understanding on this?

A. N. Gupta: There is nothing exclusive as far as the government is concerned, the process is twofold, one is to get the industrial license first from the Ministry of Industries, once we get the industrial license then we apply for CCE license that is the production license for which under the Explosive Act or Arms Act depending upon whatever you want to do. For that we submit the land documents and other things and clearances and all that from pollution control board and it is a long procedure, so we have to submit all those papers to them, they go through their what you propose to do and they approve and they say that you can start the construction. Once the construction is completed, we submit what is called **as base** drawings and we apply for license or inspection and license for starting the production, which was somebody from their site either from their head office or from the local office at Hyderabad would be coming to our site, inspecting the buildings and equipments, etc., and operating them in their presence and all that and then they grant the license. So once the license is granted by both the Ministry of Industries as well as Explosive Department we can conduct our trials and start our production.

Vatshal Shah: And we mentioned these are valid for lifetime.

A. N. Gupta: They are valid for lifetime.

Vatshal Shah: Obviously we subject to audits and all that, but then you do not need to apply it again and this is kind of an asset for us, is that what we can understand?

A. N. Gupta: Industrial license is for lifetime. As far as CCE license is concerned, it is for two or three years whatever it is and then when you have pay the fee and apply it is granted until and unless you have any negative or any spot on year operations.



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Vatshal Shah: And do they check any history of producing explosives or so and so forth or any new industry can come up and setup a factory and get the license, just want to understand the barriers to entry?

A. N. Gupta: Yes, when you apply for license, the 10 copies are made for industrial license and 10 copies are made and sent to various departments and they have to give no objection certificate from all the departments and based on your records and your antecedents and type of dealing you have had, no objection is given. Once no objection is received by this then the papers are sent to licensing committee. Once it is approved by licensing committee then the license is issued, this is the industrial license. After that the process starts at Chief Controller Explosives or they call it Petroleum and Explosives Safety Organization, PESO and as I told earlier that you have to prepare the documents and get the land and everything and then submitted to them.

Vatshal Shah: We do not see other people coming out with these kind of similar?

A. N. Gupta: They can come and they certainly require some experience and all that to clear all the hurdles of industrial license as well as license from PESO that is why you do not find many people in the field.

Vatshal Shah: Fair enough. Thanks a lot Sir. All the questions are answered.

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

Nikunj Seth: Thank you Steven. On behalf of S-Ancial Technologies I would like to thank Dr. Gupta and Mr. Rao and all the participants for joining us in the call today. Thank you. Good bye.

Moderator: Thank you. Ladies and gentlemen on behalf of S-Ancial Technologies Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.