



“Premier Explosives Limited  
Q1 FY2023 Earnings Conference Call”

August 04, 2022



**MANAGEMENT: MR. T. V. CHOWDARY – MANAGING DIRECTOR –  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY2023 Earnings Conference Call of Premier Explosive Limited. As a reminder to all participants, 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 in 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. Vishal Mehta. Thank you and over to you Sir!

**Vishal Mehta:** Thank you. Good afternoon everyone. I on behalf of Stellar Investor Relations welcome you all to Premier Explosives Limited Q1 FY2023 earnings conference call. We shall be sharing the key operating and financial highlights for the quarter ended June 30, 2022. We have with us today the senior management of Premier Explosives Limited Mr. T. V. Chowdary, Managing Director and Mr. Srihari Pakalapati, Chief Financial Officer. Before we begin, I would like to state that some of the statements made in today’s discussion may be forward looking in nature and may involve risks and uncertainties. Documents relating to the company’s financial performance have already been emailed to you. Now I invite Mr. Chowdary to share his initial remarks on the company’s performance for the quarter.

**T. V. Chowdary:** Thank you Mr. Vishal and good afternoon everybody and thank you for joining the call. We will begin the call with key industry updates followed by an update on the company’s operational performance during the quarter.

Like we have been mentioning and like you may also be aware of the opportunity in the defence sector is huge. The Government of India has an ambitious defence production target of USD25 billion by 2025 including USD5 billion from exports by 2025. Towards this end, the government’s impetus towards defence sector continues to be promising with India’s defence budget for the financial year FY2022-23 at Rs. 5.52 lakh Crores. A key component of this is the major push on procurement of weapons and military platforms from domestic producers. Key defence manufacturing players are focusing on supply chain management and key defence manufacturing companies are currently, also focusing on designing and developing various indigenous weapons and special products to boost domestic manufacturing capability and align with the vision of Aatmanirbhar Bharat and reducing the country’s reliance on imports while promoting the same quality and high-quality equipment needed by operations. This focus on becoming self reliant becomes even more important as we see the overall geopolitical scenario impacting procurement.



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To reiterate the numbers, Rs. 85,000 Crores has been allocated towards domestic capital procurement with 310 defence items reserved for domestic manufacturing. 25% of this Rs. 21,000 Crores has been allocated for procurement through private industry MSMEs and startup, and Premier being in a unique position of providing energetic material is associating with all the companies, which are working in the building the platforms and other capital equipment and we look forward for a better and improved future in the coming years.

Coming specifically to the recent updates for missiles, now as we have mentioned earlier the missiles which are under development by DRDO that is LRSAM, MRSAM, Astra, NGARM, and QRSAM. All these have come for productionisation, and we are glad to inform you that Premier is the qualified vendor for the propellant casting of all these listed missiles.

Coming to industrial explosive segment like we mentioned on the last call too things continue to improve in terms of raw material prices. The raw material prices have skyrocketed up to almost 200% in the last one year, which was very difficult to survive and maintain the supplies as per the commitment, but now things are changing and the prices are stabilizing and also the supplies for the coal sector, pricing of the supplies to coal sector policy and all those have changed and that has brought a little relief to the industry.

Coming to our company's performance, we continue to move on our growth PAT. During the quarter, we have generated a healthy cash profit of Rs. 4.1 Crores with our execution run rate improving; and given the nature of our cost structure, the operating leverage of our business will help us to generate better cash flows, which will be utilized towards strengthening our balance sheet. The changing business mix with the increase in contribution of defence segment will always well for our overall margin further with the pandemic related disruptions hopefully firmly behind us we have experienced strong momentum in our execution.

Let me take you through the new orders received during the quarter. We have signed an agreement with overseas entity for USD 13.13 million, which will be delivered within timeframe of 18 months of contract date. We bagged orders from Singareni Collieries Company Limited worth Rs. 105 Crores for supplying of different types of explosives and other accessories. We signed deal with MoD Army for delivering of NSM for a total worth of Rs. 45 Crores. We received orders from MoD for manufacturing of 50mm MTV flares worth Rs. 58 Crores. These are some of our notable orders. We are extremely pleased to report that our current outstanding order book as on June 30, 2022, stood at approximately



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Rs. 646 Crores, which translates into 3.25x times of our financial year FY2022 revenues. The dispatches for chaffs and flare were as per our expectations. The other areas where the new missiles that is production of Pralay, BrahMos, we have already reached a stage of completing our TOTs and entering into commercial bidding. Apart from this, supplies towards MRSAM and Astra are progressing and these are dependent on the FIM to be received from customer and customer has informed us the FIM status has improved and they will be able to supply us per the schedule to us and we can meet the schedule and further quantities which are going to be delivered in the financial year are expected to be 250 numbers of MRSAM and 150 numbers of Astra as per our vendor BDL. They will be able to provide the FIMs for this quantity and as we are dependent on FIM only the moment the FIMs, are available we will be able to execute the same quantities as supplies from the current year. Now, I request our CFO to share the financial performance.

**Srihari Pakalapati:**

Thank you Sir. Good afternoon everyone. The results presentation for the quarter has been uploaded on the stock exchange list and on the company's website. I believe you all may have gone through the same. Now, I will present the financial results for the quarter ended June 30, 2022. The revenue from operations for Q1 FY2023 stands at Rs. 51.8 Crores as compared to Rs. 32.8 Crores in the corresponding period last year. Our operating profit for Q1 FY2023 stands at Rs. 5.81 Crores as compared to Rs. 5.99 Crores in the corresponding period last year. In Q1 FY2023 we reported a net profit of Rs. 1.26 Crores compared to Rs. 1.27 Crores in the previous year.

Now coming back to the order book, the company's current total order book stands at Rs. 646 Crores out of which explosive business comprised of Rs. 140 Crores. The higher margin defence segment is at Rs. 365 Crores, which is around 56% of our total order book and the service segment is around Rs. 141 Crores. This order book represents a strong growth over the previous period and this is the highest ever level. We are confident that with our continued execution run rate our forthcoming quarters will continue the growth trajectory. With this, we now open the floor for questions and answers. Thank you very much.

**Moderator:**

Thank you. The first question is from the line of Swechha Jain from ANS Wealth. Please go ahead.

**Swechha Jain:**

Sir my first question is like you said we have an order book of Rs. 360 Crores in the defence category so I just want to know how much of this will be executed in FY2023 and also our EBITDA margins have improved, but they are still around 11% so do you think there is a scope for further improving these margins and then my another question was that

we were executing the orders from Israel right which was mainly development and design and we were expecting this to be converted into mass production orders so by when this is possible and for which products and what would be the size? Also what kind of new order inflow in defence we are expecting this year and also in the explosive division the Rs. 142 Crores order book that will be executed over how much time period Sir? Thank you.

**Srihari Pakalapati:** The first question the total defence order book is Rs. 356 Crores. Most of this shall be executed in the next 18 months so we are expecting about 50% to 55% during the current year itself first question. The second question in commercial explosives so we have the order book of Rs. 140 Crores out of which Rs. 105 Crores came from Singareni, which is to be executable in the next 24 months so we started from the May so I think it will be executed about Rs. 50 Crores current year and the balance will be next year. So the margins as you have mentioned I think there is some improvement so we are expecting further improvement in the coming quarter.

**Swechha Jain:** Sir any guidance?

**T. V. Chowdary:** The industrial explosives have depleted last year because of the high raw material costs. Now the raw material costs have stabilized and have come down. Now we are expecting a better margin from industrial explosives in turn overall margins will improve. The question about the Israeli design and development order we are happy to inform you that four more orders we have executed design and development order and two of them are already converted into one production order and the third one is in the process, which is not included in the order book. Very soon we are hoping that that will be added.

**Swechha Jain:** So total there are seven is it?

**T. V. Chowdary:** Now it is eight.

**Swechha Jain:** Now it is eight and you said four are executed, two are converted and then another two Sir?

**T. V. Chowdary:** One is in the pipeline and fifth one we are expecting it but I think we will announce in due course the orders.

**Swechha Jain:** Okay it is fair enough Sir. Sir in defence what kind of order inflow we are expecting this year?

**T. V. Chowdary:** You mean domestic?



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- Swechha Jain:** Yes Sir.
- T. V. Chowdary:** The Q1 already like I have just now informed orders which are already received and further to that yes we have participated in various other things, which include some new areas like mines and new warheads and other new missile systems we have participated and at this stage I do not know I will not be able to specifically give you a figure, but yes we are expecting a good inflow.
- Swechha Jain:** Okay. Fair enough Sir. Thank you Sir. Thank you for answering my queries.
- Moderator:** Thank you. The next question is from the line of Abhishek Poddar from HDFC Mutual Fund. Please go ahead.
- Abhishek Poddar:** Thanks for taking my question Sir. Sir, regarding this defence order book, I am trying to understand what could be the order prospects for the next two to three years if you can give some more details that what is the market size of the products that you are catering in India and what percentage of that you would be hoping to get and how should this order book move? We have seen a very strong move in the order book in the last one year or so, so should we expect the same growth path ahead also, some understanding there, Sir?
- T. V. Chowdary:** Based on our activities present activities and in RFIs and RFPs we expect them to move in the same order coming at least two to three years also it will be in the same growth. It will in the same growth during the same year.
- Abhishek Poddar:** Right so if I look at the order book growth it is more than like 50% from the last year so any understanding sir, should the same 50% growth would be maintained or any absolute number that you want to give?
- T. V. Chowdary:** It will be maintained.
- Abhishek Poddar:** Sir by that logic your order book could reach about Rs. 1000 Crores next year so that is something. which is achievable or how you are thinking on that Sir?
- T. V. Chowdary:** It is achievable because we have geared up all our facilities and systems for that so last three years whatever we are working and building one after one they are coming in maturation, and we are hoping to include further because of the Atmanirbhar India and the negative list where imports are going to be stopped and totally it will be shifted to domestic manufacturers.



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- Abhishek Poddar:** What will be our share of negative list items in terms of material by MoD?
- T. V. Chowdary:** Right now, I do not have in front of me the list, but I think as on date we have six items, which we are producing or in the process and development and which fall under the our share of negative list.
- Abhishek Poddar:** Okay understood and Sir second question is regarding the margins? If I look at the volatility in margins, operating margins were 18% in 1Q 2022? It came down to single digits again. Sir how should we think about it on a steady state basis and if you could also give some color on the margins for three different segments for defence, explosives, and services?
- T. V. Chowdary:** First I will talk about services. Service expenses the margins will keep on depleting because it is a long-term service contract of 10 years even though there is a price escalation clause the increase in expenses towards salaries and wages of people that will keep on increasing so as we reach the end of 10 years there will be depletion in the margins there, but coming to defence sector of course you know that which is a high margin area because of the nature of the business involved and criticality and accuracy we need to follow, we expect better margins there. So this already we are experiencing so the third area which is really which was giving uncertainties and problems goes with commercial explosives where the raw material prices were fluctuating and in fact not fluctuating last year they have shot up like anything. It went up by 200%, but now the matter was taken up with the government by the manufacturers association and the government also, I think whatever actions were taken by the government but the prices will come under control because most of the manufactures are public sector, the raw material suppliers, so they have come and then we are hoping that this will be maintained because it is also very important for explosive industry to survive for the better outlay or output from the coal industry so definitely the interest of the nation is involved in it and we hope that this will continue what now is achieved so with this hope we are expecting better margins in the coming years comparatively even better than that and also you have seen that. Now we are shifting our business share is also defence is increasing against commercial it is further increasing so automatically the proportionately the margins also should go up.
- Abhishek Poddar:** Understood Sir. Sir any guidance you want to give on the steady state margins for all businesses combined or separately either way?
- T. V. Chowdary:** I can be a little conservatively only. I cannot give that, but at least we should achieve a mark of 20% which is a good figure for the industry.



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**Abhishek Poddar:** 20% at EBITDA level Sir?

**T. V. Chowdary:** Yes.

**Abhishek Poddar:** Understood and Sir last question on the execution capability given we could see a 50% growth in revenues this year do we have the capacity and if you can talk about the capex plan also?

**T. V. Chowdary:** Yes the capex that last year and before last year we have taken up investment at Katepally plant, which is exclusively built for defence production so most of it is invested but still there will be further balancing equipment and other things as we keep on getting the orders and then some serial production line equipment we have to build not only for this, but for the export market like I was mentioning about now converting into bulk production from design and development stage. That expenditure is there and we are already incurring. We are on that job already and about our other capabilities particularly human resources, this required yes definitely the qualified people our requirement has gone up. We are already in the process of recruitment and we have recruited and it is going on further as the order book is building that quarter is going on, definitely it is an area which we have to really work and see that the quality of work and manpower improves and production level manpower, you know one of the products which now we produce the industry is producing electric detonator. Electric detonator is being phased out by Government of India so I think the manpower which is being used for electric detonator manufacturers as on date that we are diverting to other activities of defence and other areas, which are coming up so the numbers I think we have enough numbers as on date. Only we will be shifting from this operation to that operation. In fact, there will be no commercial explosives during the rainy season like this. Earlier if you see the earlier records the turnover and margins will be low in the rainy season and the middle two quarters but now that will not be there. There will be a consistent output for all these. I think we will be prepared for that.

**Abhishek Poddar:** Understood. Sir if you look at the turnover, which is about Rs. 200 Crores in 2022 there is a potential for it to grow significantly by 50% or 100% in two to three years' time so our execution capability is sufficient for us to execute it?

**T. V. Chowdary:** Yes, in fact we have much more capacity because you know that we have handled the service contracts that is the whole plant of Jagdalpur, where the whole plant is operated and run by us and the Sriharikota plant is being operated and run by us. These all contracts are given to us repeatedly based on our operational capability and execution capability only. The only difference is the plant is not owned by us but the operations all are done by our





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people and now we have withdrawn from Jagdalpur service contract so that trained workforce is available for us to execute and the facilities also we have built enough capacities.

- Abhishek Poddar:** Thank you Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Praful Siddharth from Shravas Capital. Please go ahead.
- Praful Siddharth:** So this may be a little repetitive but I just wanted to clarify so you being confident of order book touching Rs. 1000 Crores the next year so it is fair to assume that the revenue would probably be doubling by FY2024 as bare minimum or would it be even higher?
- Srihari Pakalapati:** There is a possibility so we can. We are hoping that to reach that in 2024.
- Praful Siddharth:** Got it and would it be possible to provide us with EBITDA margins for individual segments Sir that is your defence, your explosives and services?
- Srihari Pakalapati:** Our facilities are mostly combined facilities so it is different.
- Praful Siddharth:** Okay got it sure Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.
- Akshay Kothari:** Sir thanks for the opportunity. Sir I wanted to know what is the current capacity utilization?
- T. V. Chowdary:** Utilization of.
- Akshay Kothari:** Current capacity utilization in explosives?
- T. V. Chowdary:** We have various plants and various products. The capacity utilization changes from plant to plant.
- Akshay Kothari:** Okay Sir to put it in other way what could be the peak revenue from the current capacities?
- T. V. Chowdary:** Now on an average we can say we are at 60% level of utilization that is average, if you average out the plant, but if you go for plant to plant and we go to industrial explosives that might include DF and all those we are almost at 100% utilization and electric detonators



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and other areas we are at 50% utilization and commercial explosives that is bulk explosives we are at 50% utilization and like that it varies. Defence we are at 40% utilization.

**Akshay Kothari:** Okay so we will not need any capex in the medium term to grow right?

**T. V. Chowdary:** No but see the defence products are different. From product to product they vary so depending on that if we have to add we need to add. For example, mainly it comes from the testing equipment where it needs some special testing equipment, quality control and all those especially to a particular product we have to go for it.

**Akshay Kothari:** Secondly on the competitive intensity Sir have you seen any competitive intensity rising in the bids which we are making?

**T. V. Chowdary:** Right now we do not see as on date we do not see but we can never say that, there can be players who will try, but one advantage in this industry is gestation period or periods for qualification is longer so any new entrant has to go through the qualification cycle, which we have already passed through and then come so that gives us a margin compared to them we will be ahead of them to that extent. I think that is an advantage to us.

**Akshay Kothari:** I understand it would be difficult to tell this, but what would be our major raw materials for the products which we are supplying or major raw materials as for our order book?

**T. V. Chowdary:** Our major raw material is ammonium perchlorate for the missile products propellants and all those and ammonium nitrate for bulk explosives industrial explosives. These two are the major raw materials. Ammonium nitrate we are totally dependent on the petrochemical industry and other fertilizer industry which is now mainly under the government sector and for ammonium perchlorate we have our own manufacturing facility capacity and also we procure some external agencies for both. These two are the major raw materials for us.

**Akshay Kothari:** And that ammonium nitrate is different from TAN or technical ammonium nitrate somehow?

**T. V. Chowdary:** Ammonium nitrate industrial grade is ammonium nitrate, technical grade we do not need technical grade. We need only industrial grade.

**Akshay Kothari:** Okay understood Sir. That is it from my side. Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Milan Shah from Urmil Research Consultancy. Please go ahead.



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- Milan Shah:** Congratulations for excellent numbers. Sir, defence is going slow in this quarter but it is going to revive I think so my question is we have a tie-up with three universities for high grade material is it only development in this figure?
- T. V. Chowdary:** Can you repeat Sir.
- Milan Shah:** We have a tie up with three universities for high grade material is it only development in this figure?
- T. V. Chowdary:** I think there is nothing significant to mention about the development.
- Milan Shah:** Okay and Sir what is the import containing in our raw material or we are going to purchase all indigenous?
- T. V. Chowdary:** We are importing at about 20% of the overall requirement as on today. In that, it is not necessary we have to import because ammonium nitrate domestic sources are also available so our dependence on imported raw material is very, very limited.
- Milan Shah:** It is our raw material as you say is correlated to effective if the dollar price is increasing and our material price is also increasing?
- Srihari Pakalapati:** To dollar yes there is some price increase, but most of our imports came through Euros. It has come from Europe where the Euro is not appreciated so much.
- Milan Shah:** That is fine? Sir what is our total debt on this quarter end?
- Srihari Pakalapati:** We have that run rate it is hardly Rs. 1.2 Crores which will be repaid by December. There will be give us a term rate and there is working capital, I mean with regards to the fund limits we have about Rs. 50 Crores. Non fund limit we have about Rs. 145 Crores non fund limit.
- Milan Shah:** Sir are you planning for research and development for any particular segment?
- T. V. Chowdary:** Development FNA?
- Milan Shah:** Research and development?
- T. V. Chowdary:** Already lot of work we are doing. Many of the products are in-house in development. For example, the counter measures which is major source of revenue today for us. It is



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completely developed indigenously within our R&D and the R&D is continuing on that line further. Similarly, the areas you know that we are doing a lot of design and development of rocket motors for exports that is also part of our R&D work.

**Milan Shah:** What is the research expenditure in ratio of turnover regarding our R&D?

**T. V. Chowdary:** R&D percentage.

**Milan Shah:** Yes regarding to sales?

**T. V. Chowdary:** If you go by the R&D percentage it will be very, very limited because you know we are in the hierarchy material business like explosives so even the R&D work also is done in the pilot scale level in the plant only, production plant because the production plants are built to all the safety norms for operations during the development stage so exactly earmarking and then deciding on what is the R&D is a bit difficult rather than what we are.

**Milan Shah:** Thank you for taking questions. Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Prabir from Ratnabali. Please go ahead.

**Prabir:** Thank you Sir for the opportunity. Sir I have a couple of questions. First of all, if I see the contribution of defence to the total revenue last year it was roughly 55% so I want to know like what will be the defence contribution for FY2023 and what is the target for you to bring or is it like to take it to 70% so this is my first question? Then I will come with the followup questions.

**Srihari Pakalapati:** Sir the defense contribution for the last year was about 55% of the total turnover, which will be increased in the current year but kind of volumes increase there you can see the substantial improvement in the defence.

**Prabir:** Okay Sir in defence can you please give us an idea about each segment like how much is the contribution from propellants and how much is from chaffs and ammunitions? Can you just break it down for us?

**Srihari Pakalapati:** Product wise in defence itself it is difficult to give.

**Prabir:** Okay so is it like propellants is the biggest contributor in defence?



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**T. V. Chowdary:** We have both propellants and counter measures and there are pyro devices, pyrotechnic compound devices and all those are there. All are contributing.

**Prabir:** So, in propellants there are two kinds of propellants, solid and liquid? I guess you have a very high market share in solids, so the kind of missiles that are developing by India so what will be the scope of opportunity for solid propellants and for liquid and what is your take on it? How much can it boil down to your company?

**T. V. Chowdary:** We are not into liquid propellants. We produce only solid propellants that too composite propellants not double based and about the opportunity the defence missile and systems and all those if you look the recent developments all are with composite propellant where Premier is the source for propellants so that is the opportunity you have in front and liquids are used mainly in the space application. Liquid propellants cannot be loaded and kept waiting. They have to be loaded into the rocket before launching. In defence systems, you cannot wait and then launch when the enemy is trying to attack you so all defence missiles are going to be solid propellants.

**Prabir:** Is it like these cruise missiles they have more liquid propellants or am I wrong?

**T. V. Chowdary:** I beg your pardon.

**Prabir:** I am saying these cruise missiles or hypersonic missiles that is coming up so what kind of propellants is being used there?

**T. V. Chowdary:** The same composite propellants solid composite propellants.

**Prabir:** So my last question is about your ongoing projects like your presentation is showing lot of areas where you are developing like there is air glide bombs and chaffs and flares and all so can you please help us in understanding the kind of development projects going on, which can bring a large scope for your company going ahead?

**T. V. Chowdary:** It is not understood clearly the question. Can you please repeat?

**Prabir:** Yes, I am seeing that are some projects which are being developed by your company so are you doing any, is there any highlight projects which can bring a lot of opportunity for your company?

**T. V. Chowdary:** At present all are like that whatever is listed there. All are with high opportunity only. You know that in the propellant areas we are already very well established and parallelly the new



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areas, which are coming are mines, warheads, and bombs. These are the new areas, which are growing and we have also added HMX RDX plants and HMX RDX now because of the COVID and all those in between travel restrictions and all those exports got deferred so now that the travel has become easy and also now we are booking orders for exports and all those so whatever are listed and all those are high growth area.

**Prabir:** Okay Sir thank you.

**Moderator:** Thank you. The next question is from the line of Rakesh Shah an Individual Investor. Please go ahead.

**Rakesh Shah:** Sir basically I wanted to know in the explosive segment revenue uptick has happened right so how much of it was from value growth and how much of it was from volume growth?

**Srihari Pakalapati:** Basically I think value growth is significant comparatively and of course there is some small volume growth also during the quarter.

**Rakesh Shah:** So just a followup on that so what were the average realizations for this quarter compared to last quarter and compared to the same quarter in the last year?

**Srihari Pakalapati:** In one of the segments in commercial explosives the net realization has gone up by almost 250% to 300%. That contributed significantly for that particular quarter.

**Rakesh Shah:** Okay that is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Abhishek Poddar from HDFC Mutual Fund. Please go ahead.

**Abhishek Poddar:** Sir a couple of followup questions. Sir if I look at the order book breakup and the timelines of execution that you have mentioned of defence 55% this year and explosives at about 50% this year and service being executed at seven to eight years? I come up with around ballpark basis about Rs. 280 Crores to Rs. 300 Crores of turnover next year in 2023 I mean? Is that achievable or I am wrong somewhere Sir?

**T. V. Chowdary:** We are trying to achieve the figures. Yes we are achievable.

**Abhishek Poddar:** Understood and Sir this EBITDA margin improvement guidance towards let us say high double digits what will be the key drivers for this improvement?



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- Srihari Pakalapati:** Basically, the largest of last year are from the commercial exports, this division, which most of the things have been sorted out. The raw material prices are coming down and the revised contracts have been signed with revenue. So basically, the laggards are more or less neutralized and the margins in defence will be continued so that we can have good margins comparatively.
- Abhishek Poddar:** Sir at explosives level were we making EBITDA breakeven or losses last year in 2022?
- T. V. Chowdary:** 2022 yes, we have made losses because the raw material prices have gone above the selling price. Not only we everybody suffered, the entire explosive industry.
- Abhishek Poddar:** Sir even you said that defence margin is better than other segments and because your product mix will have a high defence revenues in 2023 will that also support margins and how much defence margin is better than other segment margins any indication there?
- Srihari Pakalapati:** It is not comparable with last year definitely because last year there were some negative tailwinds in commercial explosives which we have taken away some of the defence profits also. But that will not be the case in current year. The margins will be much better or definitely will be continued in defence segment in the current year.
- T. V. Chowdary:** Additional input for you is in the commercial explosives there are more than 40 manufactures and competitors whereas in the defence explosives we are only one or two so that gives us a better footing.
- Abhishek Poddar:** Okay understood and Sir just last question some understanding on the space order inflows that we are expecting?
- T. V. Chowdary:** Space.
- Abhishek Poddar:** Yes Sir.
- T. V. Chowdary:** Yes we already got. In addition to that as you are aware the MFIL now they are privatizing the satellite launch vehicles and all those and rocket motors building so we are already tied up with the larger agencies which have bid for it and we are with them as a sub vendor so I think in the coming one or two months that will be out.
- Abhishek Poddar:** Sir what could be the opportunity for us in space?



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- T. V. Chowdary:** The opportunities right now you know that PSLV program. PSLV right now everything is being done at ISRO. That PSLV program completely they want to outsource so immediately now the RFPs and all those work for five launches per year.
- Abhishek Poddar:** Understood Sir thank you.
- Moderator:** Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.
- Akshay Kothari:** Thanks for the opportunity again. Sir I guess due to raw material price rises there was an impact on margins so is there any possibility are we hedging somehow these prices or how do we go about it?
- Srihari Pakalapati:** No, I feel last year everybody knows the prices have gone up and it has reached the peak and now the curve is coming down and I think we should have hedge on current prices from now on.
- Akshay Kothari:** So, do we hedge the commodities or no we do not hedge?
- Srihari Pakalapati:** No, we do not hedge. We go as per the market and we will buy whenever it is equivalent.
- Akshay Kothari:** Okay because hedge is not that effective that must be the reason?
- T. V. Chowdary:** Sorry.
- Akshay Kothari:** Hedge is not that effective because there must be some difference in how the prices are moving and the hedge we are making so?
- Srihari Pakalapati:** As you are aware that the movement of the commodity prices are very fast and we do not see any reason why we should we take all in uncertainty times. We are more comfortable to buy in the market when it is a good time.
- Akshay Kothari:** Sir on the vision 2025 which you have mentioned, you have mentioned that we are going to develop some missile integration so could you just clear.....
- T. V. Chowdary:** A little louder please.





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**Akshay Kothari:** In the vision 2025 which you have mentioned, you have given about missile integration so who would be our competition? Would it be BDL? What is the opportunity size if you can lay out something regarding that?

**T. V. Chowdary:** The missile integration is an activity which has got two portions. One is the rocket motors assembly and the second is the assembly of the electronics that is seekers, guidance system, onboard computers and all those things so the facility we will be using the facility, but we will be partnering with other agencies who are experts in electronics and guidance systems so that will be the model we will be following in the future and for that yes the BDL is also one of the agencies. Right now we are supplying the rocket motors, filling and all those to BDL they are assembling, but other agencies are also there who have come forward and we have signed MOUs with different agencies.

**Akshay Kothari:** And what could be the opportunity size if you have a number?

**T. V. Chowdary:** Opportunity size right now whatever is there developed are with BDL and the new systems and all those which are coming it is difficult to face at present because integration is a different area which right now we are not doing it. That is the front portion. We are doing the rear portion that is all rocket motor we are assembling including the rocket motor, hardware casing, propellants, initiators, warheads and all those.

**Akshay Kothari:** Lastly Sir you have mentioned that we are tying up with OEMs and are in advanced stages of negotiation to meet the defence offset obligations so these defence offset obligations are not margin dilutive as such right?

**T. V. Chowdary:** Sorry. Can you please repeat?

**Akshay Kothari:** So we are tying up with OEMs and are in advanced stages of negotiation to meet the defence offset obligations so these are not margin dilutive as such right?

**T. V. Chowdary:** These are not mentioned in our website.

**Akshay Kothari:** No this is mentioned in your investor presentation.

**Srihari Pakalapati:** You are talking about margin dilution?

**Akshay Kothari:** Yes so I am just asking that in defence offset obligations generally what seen it is generally margin dilutive because we do not give that much margin so I am just saying that are they are not margin dilutive or how does it go in this.



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**Srihari Pakalapati:** No we do not see any margin dilution in defence. As you are aware that we are almost sole suppliers or very few suppliers for most of our products. We normally do not need to compromise on the prices.

**Akshay Kothari:** Okay, that is it. Thank you.

**Moderator:** Thank you. The next question is from the line of Devang Shah from Invest Savvy. Please go ahead.

**Devang Shah:** Good afternoon Sir. Just I wanted to understand that the defence sector that you have mentioned is having a good outlook and the way you are having a very strong order book but still you know if I see your ROE that is not giving that much improvisation so can you throw some more light on that and what is the outlook that you are expecting from your ROE in the coming years?

**Srihari Pakalapati:** Actually most of the order book was built in the past few months if you see. Out of Rs. 350 Crores, Rs.200 Crores plus order book came only in April so we are in the initial stage of the execution of the order book. We can see lot of improvement in the coming days. You can see some good improvement in the ROE in the coming days.

**Devang Shah:** Can you say any guidance about that based on your order book in the coming years or for FY2023?

**T. V. Chowdary:** Normally we do not give any specific guidance particularly in the margin front.

**Devang Shah:** Okay Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Gursharan Singh Sethi from GMC Advisors. Please go ahead.

**Gursharan Singh Sethi:** Just wanted to understand regarding the BrahMos missiles under TOT we have got something what is the current status of that?

**T. V. Chowdary:** TOT part now we are at the level of casting the full scale BrahMos rocket motor and the static test. Once that is now completed then we can say that we are ready for receiving the production orders. Otherwise, we are the end of TOT.

**Gursharan Singh Sethi:** So, by when we will be participating or when we will be getting orders in yet by when do we think we will be able to ready for it?



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**T. V. Chowdary:** It is not actually our readiness. We are ready. Like I told you when we have to go for the full-scale motor casting and then firing, we need to get this hardware as affiance from the projects. They have some issues there that is why they are not able to provide that. We are waiting every day we are reminding them to give us. The moment they give us then we can do it and tell them. So right now, like I told you we are at the last stage that is dependent on the project BrahMos issuing us the hardware the PJ10 is it called.

**Gursharan Singh Sethi:** Appreciate that. Sir expectation how big opportunity is BrahMos propellants for us?

**T. V. Chowdary:** The size of opportunity that is available in internet and all those I think you are more knowledgeable but what problem comes is whatever appears in the internet and all those it is not rocket motor. It is the entire missile system they give the value and all those things. Our part is only the rocket motor part which is compared to much lower.

**Gursharan Singh Sethi:** That is what I am asking Sir for us how big opportunity it is for this business because this is one item which is due for major exports?

**T. V. Chowdary:** We have other opportunities also equally big. I do not think this is going to be a some exceptionally large because today MRSAM, LRSAM, and Astra what we are doing we are producing and the orders are in 100s with us so that also you have a reference and even the Israeli orders what we are announcing and giving they are also big so opportunity wise they are all equal.

**Gursharan Singh Sethi:** There was one order from Israel, which was in the pipeline that we had last time you had said, has it gone through?

**T. V. Chowdary:** No we are yet to sign the agreement.

**Gursharan Singh Sethi:** By when are we expecting it Sir to happen?

**T. V. Chowdary:** This month itself it is. Already it is overdue.

**Gursharan Singh Sethi:** And how big is that opportunity Sir?

**Srihari Pakalapati:** The order will come in multiple stages. It is not that they are going to issue a single order for the large phase but it is a regular order. It will come in multiple times.

**Gursharan Singh Sethi:** Right Sir but how good an opportunity it will be for us? What sort of a business we can over a period of time from that particular order for that particular thing?



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**Srihari Pakalapati:** Over the period of 18 to 24 months it will be about Rs.100 Crores plus and I mean it is a continuous order, but they will not be issuing the order in one shot. It will be regular order.

**Gursharan Singh Sethi:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Raghav an Individual Investor. Please go ahead.

**Raghav:** Thank you so much for taking my call. I joined in a bit late so a couple of my questions might be repetitive and apologies for that so I have a two-part question and may be one feedback for the management. The first question is just around the operating expenses. We have seen during the quarter, year-on-year it has grown by Rs. 4 Crores. Just wanted to understand what is driving it and whether it is going to sustain even in the future? The second part of the question is more about the margins and what is our outlook for the next nine months given that we have had a very significant drop this quarter and just as feedback over the last quarter we have seen the order book grow by around Rs. 200 plus Crores and we have not really seen anything from your end in terms of a notification on the stock exchanges so I understand the threshold for disclosure would grow as our revenue grows, which is primarily driven by the explosives segment but it will be great if you could still disclose significant orders, which might be below the threshold, but it will be great for investors like me?

**Srihari Pakalapati:** Sir first I would like to request your attention on the declaration to the stock exchanges. We have given five notifications to the stock exchange regarding the order book updation. We have declared all significant orders during the month of April and May. Please recheck it. That is one part. The second part yes, the other expenses have gone up by Rs. 4 Crores comparatively. This is because of the two reasons one - the volumes have gone up from Rs.32 Crores to Rs. 52 Crores that is one part. The second part there were some exports during the current quarter. The exports have gone up by almost double so the export expenses and other expenses have gone up significantly. These are the two reasons why the costs have gone up.

**Raghav:** Do we expect it to sustain over the rest of the year as well Sir?

**Srihari Pakalapati:** You are talking about the other expenses.

**Raghav:** Other expenses?



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- Srihari Pakalapati:** Other expenses it depends on the volumes. Most of the things directly linked with the volumes and exports so the regular fixed kind of thing with expenses those are more or less fixed. They have not increased. They have not gone up much.
- Raghav:** Understood. This is clear Sir then if it is variable cost. The next question that I had was around the margin commentary say for the next nine months because at the beginning of the year I think we were projecting much healthier margins that we delivered in the Q1 so are we going to still retain that commentary?
- Srihari Pakalapati:** The margins have improved. You can see the margins of the last quarter, March quarter is 8% and it has gone up, but still we are hoping for the better margins in the coming days.
- T. V. Chowdary:** Export, we have to compare the businesses the commercial explosive business is like a commodity business continuously there will be uptake. We keep on producing and supplying against the others whereas the defence production, you build it, build it, build it and finally after every stage clearance then you deliver. When you deliver you build them then they appear in income and then the margins will defer. Otherwise, till they are in the building stage they do not appear neither in the turnovers or in the margin so it will not be consistent quarter-to-quarter there will be ups and downs. The Q1 has been down.
- Raghav:** Sir at an overall level I have to say at a year-on-year comparison level do we say this financial year is going to be better than the last in margin terms?
- T. V. Chowdary:** Yes, definitely. In fact, in earlier for one of the questions I indicated something like we are looking for a 20% margin.
- Raghav:** Right and that has been our commentary all along. Thank you so much. I will go back into the queue.
- Moderator:** Thank you. The next question is from the line of Divyam Gupta an Individual Investor. Please go ahead.
- Divyam Gupta:** Thank you Sir. I appreciate the opportunity. I would just like to get your opinion on the growing popularity of liquid propellants such as kerosene-based rocket fuel or liquid hydrogen? Is this a threat for our business or does it not concern our stream of work?
- T. V. Chowdary:** It does not concern us because the liquid propellants and kerosene those are for space applications not for the defence applications. In the space applications already, those are liquid propellants and all those. We are producing the small satellite launch vehicles or the



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strap on motors which are again only solid propellants based so this shift what you mentioned is not going to affect us.

**Divyam Gupta:**

Great Sir. That is all I have Sir. Thank you so much.

**Moderator:**

Thank you. Due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. T. V. Chowdary for closing comments.

**T. V. Chowdary:**

Thank you very much Sir for the interest shown in the company and concern shown about our business and all those it is quite informative and educative to us also about the thinking and then to guide us in our thinking process and we look forward for a better future and assure you of better results. Thank you.

**Moderator:**

Thank you. On behalf of Premier Explosives that concludes this conference. Thank you for joining us. You may now disconnect your lines.