“Premier Explosives Limited
Q4 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2022 earnings conference call of Premier Explosives 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. 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 the Premier Explosives Limited Q4 and FY2022 Earnings Conference Call. We shall be sharing the key operating and financial highlights for the quarter and full year ended March 31, 2022. We have with us today the senior management team 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 risk 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. Thank you and over to you Sir!

T. V. Chowdary: Thank you Mr. Vishal. Good afternoon, everyone, thank you for joining the call. We will begin the call with the key industry update followed by an update on the company's operational performance during the quarters.

To begin with the government's impetus towards defence sector continues to be promising, and India's defence budget for the financial year 2022-2023 stands at Rs. 5.52 lakh Crores with an increase of almost 10% from previous year's budget with a major push on procurement of weapons and military platforms from domestic producers of this Rs. 1.52 lakh Crores is proposed to be utilized for capital expenditure that includes the purchase of military equipment, warships and new arms. The procurement of this is also focused at promoting the domestic manufacturing of defence requirement.

Out of the total budget allocation, 68% of the budget will be sourced from the domestic industry and 25% of the defence projects on R&D will be kept aside for partnership with private sector.

As per the Finance Ministry the Government of India is committed on reducing imports and promoting self-reliance equipment for the Indian armed forces. Through the special purpose vehicle model private industry will be allowed to design and manufacture military platforms and equipment in collaboration with DRDO and other organizations. India's defence industry will evolve as a strategically vital sector and a source of employment in the private sector with a primary focus on improving the country's war fighting capabilities.

Due to the technological complexity of modern weapon and the government's preference for domestic suppliers competition in defence manufacture is still developing in India. As the Aatm Nirbhar Bharat program in defence sector more chances are made available, active participation in the development of credible military manufacturing lines can be vital for the development of MSMV culture through entrepreneurial ability and creativity. India conducted two successful anti-ship missile tests Brahmos and Uran and you are all aware Brahmos the anti-ship missiles, India signed a big order with Philippines.

In addition, India also successfully tested a new version of the Brahmos Supersonic Cruise Missile off the coast of Odisha in Balasore. So, these are interesting areas where the growth is going to take the impetus.

Now apart from the defence sector, coming to industrial explosives compared to the year 2021-2022 and the 2020-2021 things started improving in terms of raw material prices. Raw material prices have skyrocketed up to almost 200% in last one year which made it very, very difficult to survive and then supply, but now things are changing, 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.

Now coming to our company's performance. After numerous headwinds in the recent pasts we are now moving towards growth trajectory. During the quarter we have generated healthy cash profit of Rs. 16.67 Crores, the change in business mix with the increasing contribution of defence segment will augur well for our overall margins. Further with the pandemic related disruptions hopefully firmly behind us, we are experiencing strong momentum in our execution. Let me update you on the status of few key orders received during last few weeks.

We have signed a contract with overseas customer for USD13.13 million for supply of rocket motors and received order from Singareni Collieries Company Limited worth Rs. 104.84 Crores for supplying of semi explosives and accessories.

Signed contract with MOD for supply of new family of munitions for a total value of Rs. 44.58 Crores and received order from MOD for manufacturing of 50 MM MTV flares worth Rs. 57.90 Crores. These are some of our notable orders. We are extremely pleased to report that our current outstanding order book as on date stood at approximately Rs. 630 Crores which translates into more than three times of our financial year 2022 revenues.

The dispatchers for shaft and flare were as per our expectation. The other areas where the new missiles that is production of Brahmos, Pralay, etc. We have already reached a stage of completing our TOT and entering into commercial bidding. Apart from this, supplies towards MRSAM requirement and Astra requirement they are progressing and these are dependent on the FIMs to be received from customer. The supplies will depend on the FIM supply and in the last quarter we have supplied a total of 84 numbers of MRSAM and 7 numbers of Astra and further quantity is going to be delivered in the current quarter.

With this now I request our CFO Mr. Srihari to give the financial performance. Thank you.

Srihari Pakalapati: Thank you Sir. Good afternoon, everyone. The results presentation for the fourth quarter and financial year 2021-2022 has been uploaded on the stock exchanges 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 and full year ended March 31, 2022. The revenue from operations for Q4 stands at Rs. 60.5 Crores as compared to Rs. 35.4 Crores corresponding period last year and Rs. 50.8 Crores in Q3. Our operating profit for Q4 stands at Rs. 4.9 Crores as compared to Rs. 7.1 Crores in the corresponding period last year and Rs. 4.5 Crores in Q3. In Q4 we reported a net profit of Rs. 1.2 Crores compared to Rs. 2.7 Crores in Q4 last year and Rs. 60 lakhs in Q3.

The revenue from operations for FY2022 stands at Rs. 199 Crores as compared to Rs. 153 Crores in the corresponding period last year which is translating into 30% growth year-on-year. EBITDA for financial year 2022 stands at Rs. 22.3 Crores as compared to Rs. 6.6 Crores in the corresponding period last year, which is a strong growth of 235% year-on-year. The operating margin of 11.2% in FY2022 improved from 4.4% in FY2021. Net profit in FY2022 stood at Rs. 5.6 Crores compared to a loss of Rs. 10.7 Crores in FY2021.

Your company has always rewarded our shareholders and on the back of the robust performance management has announced a dividend of Rs. 1.50 paisa per share which is translating to 15% of the face value.

Now coming to the order book, the company's current total other book stands at Rs. 630 Crores out of which explosive business comprised around Rs. 137 Crores. The higher margin defence segment is at Rs. 348 Crores which is around 55% of our total order book and the service segment is for the balance Rs. 146 Crores. This order book represents a strong growth over the previous year and is at the highest ever level. We are confident that with our continued execution run rate our forthcoming quarters will continue the growth trajectory that we have seen in the past few months.

With this we now open the floor for questions and answers. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shivan MS from JHP Securities. Please go ahead.

Shivan MS: Good afternoon, Sir. Thanks for the opportunity. My first question is on our margins. We have been having greater exposure to defence which is a high margin business, but during the quarter and the last couple of quarters our margins have been under tremendous pressure. So could you just explain the reasons for the same and what is the outlook going ahead.

T. V. Chowdary: You are right that there are some good margins even from the defence sectors, I mean, the margins have continued, but with some sort of losses absorbed from the SMS I mean bulk explosives and other commercial explosives so it is something like a net adjusted profit we can say, but coming forward I think with the kind of revival happened in the bulk explosives and commercial experience so we are confident that the things will be comfortable and overall margins will be improved.

Shivan MS: If I look at the GP margin of March and of December, March has been around 45%, December has been around 50%. So, what is the reason for this dip in the gross profit margin?

Srihari Pakalapati: Basically, the change in the product mix because the contribution from the defence was great in the March quarter last year, this quarter is the best contribution moreover the products mix, also we have got the different products which have got its different margins. So basically, it was a net of the product mix.

Shivan MS: Moving ahead where do you see these margins stabilizing at considering we have a Rs. 630 Crores order book what is the broad margin range that we are looking at while executing this order book.

T. V. Chowdary: Like I explained in my opening remarks and also what Mr. Srihari said the last year there was a lot of strain on our profits in bottom line because of the unexpected increase in raw metal prices, ammonium nitrate in the bulk explosives, but prices were committed earlier we had to maintain our supplies as per the prices. So we had to take some kind of loss or beating at that area but now the prices have stabilized ammonium nitrate prices have come down and the price escalation clauses in present orders all those, revision in index will help the industry to come back. So I think that will take care of whatever beating we took in the last two quarters of last financial year. Now we look forward to make the big margin there also with that stabilizing and then supporting, the margins from defence industry being good and this at least not going in negative direction we are hoping that the next year is going to be good.

Moderator: Thank you. We will move on to the next question from the line of Devang Shah from Invest Savvy Portfolio Management. Please go ahead.

Devang Shah: Good afternoon, Sir. My first question what is your revenue growth outlook.?

Srihari Pakalapati: Considering our order book and recent order inflows we are expecting comparatively much better growth because last year we are grown by 30% if you see the top line. This year would be much better because considering the order book has on hand.

Devang Shah: My second question as you are saying that you are having a raw material cost prices due to rise in ammonium nitrate prices, do you feel coal and crude also impacting your operating cost also that is what I wanted to know apart from ammonium nitrate.

T. V. Chowdary: Crude of course it does not directly affect us, but indirectly it affects because the petrochemicals are affected, price of ammonia is also affected. So naturally ammonium nitrate price also gets affected.

Moderator: Thank you. We will move on to the next question from the line of Aryan Verma, an individual investor. Please go ahead.

Aryan Verma: The recent order of the fabrication and supply of R-III rocket motors that we have received for Rs. 13 Crores you have mentioned that this is not a material order. So do we mean that this is a development order and is there a chance for this to convert into a production order?

Srihari Pakalapati: Material means normally we consider as a material if the order value crosses 10% of the turnover which is at least Rs. 20 Crores. So normally we wanted to declare even though if it is less than Rs. 20 Crores it was a voluntary disclosure. So that is why we mentioned it is material considering the value not anything else.

Moderator: Thank you. The next question is from the line of Shivan MS from JHP Securities. Please go ahead.

Shivan MS: I was just trying to ask in our order book one would have expected price escalation clauses to be in place at least for the defence order books. So why then the dip in the margins.

T. V. Chowdary: We explained you that there was not much dip in margins in defence mostly the dip has come from the industrial explosives and other divisions because of the ammonium nitrate and other issues that got offset by the margins in the defence first thing. Second thing in defence also there are different products wherein the margins are different it is not uniform second thing. Third one the things got stabilized in the industry explosive segment also and we are now expecting some good things to happen and the losses will not be there in coming days. So the defence margins will be continue.

Srihari Pakalapati: One more thing is in the defence products also during the development and the design and qualification stage the price we get is higher, but once you convert into production orders where it is the volumes which increase there the margin will be a little reduced that is how the business goes.

Shivan MS: So Sir majority of the current year’s execution is going to be from the bulk orders that we would have got from defence right they would not be the initial small trial orders.

T. V. Chowdary: Both will continue because today’s trial orders will become a bulk order after five or six years, it is like that so both will continue parallel.

Shivan MS: Sir we had discussed regarding the Israeli orders which were trial orders in the last year and you are expecting some bigger orders from them, has that fructified or what is the status for the same.

Srihari Pakalapati: Yes, three of them have fructified into bulk orders another one big order it is like you have mentioned about the price escalation discussions are going on maybe by next month we will be coming out with the quantities and figures.

Shivan MS: These three bulk orders what would be the contribution in our current order book.

T. V. Chowdary: You are asking about the bulk orders.

Shivan MS: Yes, the three Israeli orders which are in hand what would be the outstanding order book their share in the outstanding order book.

T. V. Chowdary: That was about Rs. 40 Crores that was only in the development and design balance order book.

Srihari Pakalapati: We are yet to sign the final mass production order and then we will declare.

T. V. Chowdary: The three numbers what I was telling the order book the value is around Rs. 40 Crores.

Shivan MS: Sir we were expecting some bigger orders right.

T. V. Chowdary: That is what Srihari just now told the bigger order we are expecting in June month.

Shivan MS: Okay got it Sir, and when I look at our cash flows the operating cash flows even in the September quarter when we had discussed and currently also they have been in the negative range mainly because of heavy high debtor days so Sir what is our plan to navigate through this because there has been a continuous operating negative cash flow.

Srihari Pakalapati: If you see the moment the contribution from defence is going up obviously the receivables are going up because we know that realization from defence takes time so unlike the industrial explosives. So the same has been reflected there in the receivables and as on 31st March 2022, almost 75% of our receivables comes from the defence sector so most of the receivables have been realized subsequently.

Shivan MS: So out of the current debtors as at 31st March 2022, the outstanding how much has been realized.

Srihari Pakalapati: Almost about more than 60%.

Shivan MS: So out of Rs. 71 Crores 60% of that has been realized.

Srihari Pakalapati: Yes.

Shivan MS: Got it Sir and okay so that is it from me I will join back the queue.

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

Abhishek Poddar: Thank you for taking my question. Sir regarding this Rs. 630 Crores of order book if you can give some understanding of the execution schedule, how should we see 2023, 2024, 2025 for this.

T. V. Chowdary: Most of the other book will be executed in next 24 months except the order book on service sector part which is for a period of long-term contracts 7 years but the supplies and all those are for 24 months.

Abhishek Poddar: And the services will be linear for 7 years or it will be increasing.

T. V. Chowdary: It will be increasing there is a price escalation clause in fact this COVID has affected our service contractors also because the entry restrictions at the Sriharikota establishment and all those, but after that now it should also increase the volume plus there is a price escalation clause which gives us every year increase to us.

Abhishek Poddar: So services is like 23% so we should assume that will be seven years and the balance 80% or 77% that will be executed in 2023 and 2024 from this.

T. V. Chowdary: Yes that is right.

Abhishek Poddar: And some understanding on how are you looking at order inflows from defence and explosives in next year 12 to 24 months.

T. V. Chowdary: Defence orders yes, because we are participating in many tenders and RSPs inside the country and also for exports, we are hoping for a healthy inflow of defence orders and commercial explosives of course this is annual orders so now Singareni order is over we have to complete the supplies against the order and the Coal India we are expecting some new orders which may take a month or two to finalize some of them.

Abhishek Poddar: So like last year was very strong in terms of order inflows close to Rs. 400 Crores based upon the back accreted number would you expect this momentum to continue or we kind of peek out at these order inflow numbers.

T. V. Chowdary: We expect to continue based on our participation.

Abhishek Poddar: And the order book mix will remain same like 55% is defence so should we assume that will continue in the same way.

T. V. Chowdary: It may further increase, the defence percentage may increase.

Abhishek Poddar: And the margin this year we closed with 10.5% EBITDA margins and with the bulk losses going away where do you see that settling.

Srihari Pakalapati: Normally we do not give any guidance, but definitely you can see a lot of improvement in coming quarters.

Abhishek Poddar: So the defence contribution going up that will be margin accretive.

T. V. Chowdary: Defence and also aerospace we have not specifically talked about aerospace so both together should give us the push.

Abhishek Poddar: Okay Sir thank you and all the best.

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

Milan Shah: Congratulations for good set of numbers. Sir, I want to understand we have received the industrial license for warhead. It is already we have this product, or this is a new product lineup.

T. V. Chowdary: It is our new product line up even like in warhead particularly but last year itself we have already started production and we have executed some orders.

Milan Shah: And what is the export order within the order book quantifying the number.

Srihari Pakalapati: You want to quantify the number.

Milan Shah: Yes.

T. V. Chowdary: About Rs. 175 Crores.

Milan Shah: And what is the debt level on 31st March 2022.

Srihari Pakalapati: We have hardly Rs. 2 Crores which will be repaid in next to three quarters technically it will be zero by 2022-2023 and there is some working capital debt which is about Rs. 70 Crores so that is it, we do not have any other debt in our balance sheet.

Milan Shah: Very good, we are going to be debt free on working capital is so keep you operational, thank you so much.

Moderator: Thank you. The next question is from the line of Belam Rao, an individual investor. Please go ahead.

Belam Rao: Good afternoon I have one question on the financial and one question generally about the company. Now with the order book where it is and execution period being less than two years. So it will be safe to assume the turnover will be more than half the order book am I right.

T. V. Chowdary: Yes Sir it should be.

Belam Rao: Second question is the raw material prices have not stabilized do you expect something like 13%, 14% operating margins.

Srihari Pakalapati: No sir, such margin is not visible as on date.

Belam Rao: General question. Now I was just going through the website, it does not say about rocket motors but you got an order so I presume you are now making the rocket motors just the explosive material am I right.

T. V. Chowdary: Yes we are making the full rocket motor.

Belam Rao: Yes, exactly, so like Skyroot are there any plants either yourself or along with somebody else developed a full rocket.

T. V. Chowdary: No that is different line and we are already on our own we are making a full rocket that is what I told you, but I understand Skyroot is for satellite launch vehicles but our rockets are tactical missiles.

Belam Rao: It means smaller in size is it.

T. V. Chowdary: Yes, these are two different that is space rockets are much, much larger but we are making for ISRO not for Skyroot.

Belam Rao: That I understand that I know also. Similarly is there any plan I was thinking.

T. V. Chowdary: There are other people like Skyroot who are getting into startups getting into satellite launch vehicles they are already in touch with us and we are also one of the partners for the privatization scheme for ISRO.

Belam Rao: But the website could be updated for such information I think.

T. V. Chowdary: Well we will need to do right now.

Belam Rao: Thank you, that is all.

Moderator: Thank you. The next question is from the line of Shivan MS from JHP Securities. Please go ahead.

Shivan MS: Thanks for the follow-up. Sir one question was on the New Space India Limited the ISRO's new arm. Could you give some update on that we were supposed to tie up out there I guess and some land that Sriharikota identified for that opportunity.

T. V. Chowdary: Yes, the land has been identified and still going through the government process. So we are hoping that this year, the year 2022-2023 the land will be handed over to us. In addition to that we are already producing some of the requirements of ISRO in our new Katapally plant.

Shivan MS: Sir this space opportunity, what is this opportunity size that we could be tapping moving ahead.

T. V. Chowdary: See the size in terms of numbers will be less because unlike defence where tactical rockets and missiles are made in hundreds and thousands there it will not be like that it will be a single digit or two digit numbers maximum what we will be producing. So in terms of turnover and all those it will not be as big as defence opportunities.

Shivan MS: So you said it will be as big as.

T. V. Chowdary: It will not be as big as defence opportunities.

Shivan MS: And the margins would be similar to defence or higher.

T. V. Chowdary: Yes, margin will be similar to defence.

Shivan MS: Sir and one of the previous participants' you said that there have been bulk exclusive losses within this year. Could you quantify those losses which are not expected to come moving ahead?

Srihari Pakalapati: You want to know the losses for the previous year.

Shivan MS: Yes, you said there were certain losses that you had to take in the bulk explosive segment if I heard correctly which will not come in the current year is my understanding correct out here.

Srihari Pakalapati: See in the allocation of the overheads and all those distributions based on the contributions of a particular division. So exactly giving you the figures from the division wise is a little difficult.

Shivan MS: Any ballpark Sir so that we understand what could be our margin profile moving ahead because there has been a significant change that has happened that is my reason to ask the question.

T. V. Chowdary: This being a highly competitive field there are more than 40 competitors in industrial explosives so this is a little bit sensitive information I hope you will understand.

Shivan MS: But one thing is for certain right that the margin improvement from FY2022 to FY2023 will be substantial.

T. V. Chowdary: Yes, definitely the year 2022-2023 is going to be better.

Shivan MS: Okay got it thank you Sir.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. T. V. Chowdary for closing comments.

T. V. Chowdary: Thank you very much everybody for the interest shown in the company and the performance and also for wishing us a better future. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Premier Explosives Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.