

Premier Explosives Limited
Q3 FY 2016 Results
Conference Call

February 04, 2016

Management:

Col (Retd) Vikram Mahajan - Director Marketing
Mr. C. Subba Rao – Chief Financial Officer

Moderator:

Mr. Saurabh Ambaselkar – Investor Relations
S-Ancial Global Solutions Private Limited





February 04, 2016

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY 2016 Results Conference Call of Premier Explosives Limited hosted by S-Ancial Global Solutions Private Limited. As a reminder all participants' 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 "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand over the conference to Mr. Saurabh Ambaselkar. Thank you and over to you Sir!

Saurabh Ambaselkar: Thank you. I, on behalf of S-Ancial Global Solutions welcome you all to Premier Explosives Limited Q3 FY 2016 Earnings Conference Call. We have with us Mr. C. Subba Rao – CFO and Col (Retd) Vikram Mahajan, Director Marketing of the company on the call. I now hand over the call to C. Subba Rao. Over to you Sir!

C. Subba Rao: Good morning or good afternoon. I welcome everyone to third quarter financial year 2016 results conference call of Premier Explosives. The net sales for this quarter stood at Rs.481.7 million that is an increase of 31%. The operating profit for the quarter was Rs.48.4 million, an increase of 82% year-on-year. Operative margin during this quarter stood at 10% and increased of 283-basis points.

The profit before exceptional items and tax was Rs.29.5 million, an increase of 1.49% year-on-year. PAT including income from exceptional item stood at Rs.18.5 million that is a growth of 85% year-on-year. PAT margin grew by 113-basis points to 3.8% in this quarter. During the quarter, explosive business grew by 28%, defense product went up 52.2% and the services business is relatively steady at 6.4% growth.

Current order book of the company stands at about Rs.1,590 million for explosives, Rs.787 million for defense product and Rs.311 million for services. This is the basic information on the results, details I hope you have gone through. Sorry that there might have been some delay in uploading the presentation in the website. Now I open this call for discussion. You are welcome.

Moderator: Thank you Sir. We will now begin with the question and answer session. The first question is from the line of Dikshit Doshi from White Stone Financial. Please go ahead.

Dikshit Doshi: Can you just repeat your order book?

C. Subba Rao: Rs.1,590 million for explosives, Rs.787 million for defense and Rs.311 million for services.

Dikshit Doshi: Can you just give some update on your recent MOU with Israel Aerospace?



February 04, 2016

- C. Subba Rao:** Mr. Vikram Mahajan, our Director Marketing will take that question.
- Vikram Mahajan:** As you must be aware that we have entered into MOU with IAI of Israel. The strength of IAI is into electronics and front end of the missiles. They are very strong in the electronics portion in the guidance system and control system, and the strength of Premier Explosives Limited is in rocket motors or propellant and those kinds of back end portion of the missile. So we are looking at the futuristic opportunities that are likely to arise in the Indian market for the missile systems or per se the missiles, so we are likely to work together and see what are the opportunities that come across and we can work together to take advantage of each other strength. Is my answer clear or you want any other details on this.
- Dikshit Doshi:** Anything finalized like any product or capacity for this?
- Vikram Mahajan:** Not yet, we are not finalized anything right now.
- Dikshit Doshi:** Apart from this JV in last one year we have got many approvals for different kind of products. So is there any plan finalized for the capacity for those products?
- Vikram Mahajan:** I just to give you a brief about what we intend doing. The defense sector can be divided into two basic things. One of the platforms like you can say aircraft is a platform, ship is a platform, tank is a platform and a gun is a platform. As a company Premier Explosives Limited, we will not get into platforms as of today. We cannot say about the future, but as of today we are not likely to get into the platforms, because we do not have the strengths over there right now. But anything, which is fitted on the platform, is our strength. You have missile, which are fitted on the aircraft or on the ships or on the ground that is our strength. You would have ammunition to be fired from guns that would be our strength. You have either thing, which are required for the defense sector that could be our strength. So keeping in mind, what is our futuristic plan? We have gone in for various licenses. So, if you have seen the site and if you kept track of the licenses that we are applying for, those have been purposely applied with this view that what we are doing right now and where do we intend to go in the next 3 to 5 years. So, we would basically be getting into ammunition and will be basically doing rockets, missiles, bombs, mines, all these things we will be doing in the near future.
- Dikshit Doshi:** So nothing is finalized like we have to build the capacities for those products of this. So any capex plan or anything finalized?
- Vikram Mahajan:** We are discussing with various foreign companies. We are in negotiation and we are in discussions with various foreign companies for various products, so they are at various stages of discussions. So as and when the capex plan arises, we will see how the money is



February 04, 2016

to be raised, whether we can raise it in-house or we need to go out and raise it and how we do it exactly. We are in various stages of discussions with various companies.

Moderator: Thank you. The next question is from the line of Abhijeet Vara from Sundaram MF. Please go ahead.

Abhijeet Vara: Thanks for taking my question. My first question is your order book has been falling consecutively for three continuous quarters. Could you give some color as to apart from obviously defense which is may be bulky in nature. What is happening on explosives in some color on the near term and as well as medium term for order book?

C. Subba Rao: Basically, the orders of Coal India say they will give two years, so as the time progresses that order gets executed and we have to wait for another cycle. So as long as our business comes from Coal India and Singareni Collieries it will be like this and defense also whatever the Akash orders and all that we are executing, so it is coming down. We have to wait for the next round. About the orders may be our future orders, Vikram Mahajan will tell you.

Vikram Mahajan: I will just elaborate on this thing. Coal India, Neyveli and Singareni these are organized sectors and as you are aware they generally float a tender of duration of two years or three years. So, when you see an order book you would see that there is an order for X amount. Out of X amount every quarter some amount would be booked or executed. So your order book will keep falling, but this is a cyclic process and we are well aware of this and we are tuned to this kind of a system. So, every two years or three years, they will be a tender, we will participate in that, we will win some, we may lose some, so we need to be very careful in our understanding how aggressively need to be and how much of order we need to take that is the company policy which we take. To us that is not a very critical issue or that is not a very challenging issue right now. That is how the market works. If you see this is how it will work for even most of the explosive industry across the country.

Abhijeet Vara: For the current order book what is the execution period Sir?

C. Subba Rao: Out of this may be Rs.45 Crores to Rs.50 Crores will be executed in the rest of the year that is three months now and may be Rs.150 Crores will be in the next financial year.

Abhijeet Vara: My second question in the presentation you have shared slide #13, you have spoken about various key strategies and way forward. In that you have mentioned you have formed a JV with Kalyani Group to participate in the indigenization of defense products, capacity expansion, technology tie-ups, exports and you acquired 250 acres of land. If you can just spend 2, 3 minutes on this particular slide help us to understand what is it that you are

February 04, 2016

trying to achieve in near-term, medium term as a company. What is the focus? How much will be the capex entailed and the progress made?

Vikram Mahajan: I think your question can be divided into three, four things. First thing is land let us tackle the first thing, which is the simplest. As you know acquiring land in India is a difficult and very time consuming process. You want to set up anything else today I wanted to set up an ammunitions plant. I need land for that. If I decide today to set up a plant, I start acquiring land I would take at least a year or two years from that. My whole process gets delayed by about two years. So as the company what we have done is, we have done strategic forward thinking and we have already started acquiring land. We have now substantial chunk of land with us and which we understand is enough to meet requirement for the next two to three years or may be five years. So, whatever projects which we have invested. I think coming up in the next two years or three years we feel we have the sufficient land for that. Land acquisition is ongoing process with our company, we understand that we require large chunks of land and we are continuing on that. Perfectly fine, so at this point we can close.

Abhijeet Vara: How much spend on acquiring this 250 acres?

Vikram Mahajan: May be we would not like to divulge the figure. The second point is JV with Bharat Forge. JV with Bharat Forge was formed about a year or year-and-a-half ago and there are different opportunities which are coming up in the different sector in the near future which are coming up. So, we are already working with Bharat Forge on those opportunities and the things are progressing satisfactorily over there.

Abhijeet Vara: What is the opportunity, if you can give us flavor? This will be again probably ammunitions or whatever.

Vikram Mahajan: If you take strength of Bharat Forge, Bharat Forge strength is into metal parts and machining and all those things; we are very strong in explosives, ammunition, propellants, and chemicals. You take ammunition per se ammunition would consist of may be two or three things, one is explosives, one is metal part and one is propellant and may be fuse over there. So, you have strength of Bharat Forge would matches perfectly fine with our strength and our strength matches perfectly fine with Bharat Forge, so there are ample opportunities where we both of us can go together and work and capture the market. So that is the JV, which we feel as pretty good. If we are able to get some business somewhere there, it will fructify very well. Am I clear or you want some more clarification on this one?

Abhijeet Vara: Probably, I will come back later on the same point, but if you can just?

C. Subba Rao: Let me add to this point. Basically this ammunition of these products are not made in India so far ordnanace factory may be making something, but private sector is not there at all in

February 04, 2016

ammunition. Government wants to select indigenization and all that. In that process, quotations or tenders are coming. Any party participating in the tender is on the strength of the technical and financial, but setting up the plant nobody is having, any participant in the tender, they have to put up a plant and then supply, so that is common for all the participants, so we are one of them. So as of now let us not assume like say if we are quoting per se normal explosives for mining that is based on the existing plant. But for this ammunition, it is based on even setting up the project is in the future. Tender is like that. So for the time-being let us not assume something will happen production will start within one year, setting up any project after getting the quotation only we will start that process.

Abhijeet Vara: But this will be predominantly probably for guns only right?

Vikram Mahajan: We are talking to them for various products that are required for the defense products, it depends, it could be ammunition, it could be rocket, it could be missiles, it could be everything else. Wherever mechanical part or machining part or metal is required, there the Bharat Forge comes in and wherever explosives and propellents are required we will be coming. Regarding this MOUs, which are you talking about other may be international companies, what happens is. Defense has got entry barrier in technology. Today, if you want to make a ammunition, you want to make a 23mm ammunition or 40 mm ammunition or you want to make a missile, you just cannot do it, because you do not have the technology and for developing a technology it takes may be year and years together and you still may not be able to do little bit. So either you start developing it yourself or you form a JV with international company and start doing it. So where the technology will take transfer to you, you will indigenize the technology also you may do some improvements in the technology and then become critical over important player in the Indian industry. So, that is why we need to talk to the international companies and I assure that we are in the right areas to take on the right opportunities, which are coming off.

Abhijeet Vara: This is for both India as well as global markets?

Vikram Mahajan: We are trying to see that but towards Indian market right now is the most important thing, because personally to my mind, what Mr. Modi has done is Make in India is the best thing that happened to the country in the last number of years. This opened up complete game of business opportunity for us and more important when the defense services become self-reliant on our products only and marking our quality of the products is good or may be better than what the international company can supply.

Abhijeet Vara: When you are saying TOT you already have the technology to manufacture explosives, ammunitions all these things?



February 04, 2016

Vikram Mahajan: We have the technology to manufacture the explosives, but I have to supply 30 mm ammunition. I do not have the technology to supply 30 mm ammunition. Cartridge itself, ammunition itself, the technology is very different and the metallurgy is very different. The base would require harder metal and the top end would require very soft metal which is a very critical technology, so how do you get it, so that is what I am saying. In the case of ammunition, we are actually need to tie-up with the foreign companies to get the technology and set up plants in India. But yes, we are seriously talking a lot of companies and there are serious thought going on in that, there are serious discussions and we are very hopeful, as a company and as an individual myself I am very hopeful.

Abhijeet Vara: The last point on exports opportunities?

Vikram Mahajan: You are talking about defense on the export you are not talking about commercial explosives for export right now.

Abhijeet Vara: No only defense as of now.

Vikram Mahajan: Defense export can happen in two ways. One is the offset of opportunities. When an international company does order worth Rs.300 Crores, they have to meet some offset obligation. So what they do is, they could procure certain items from us and those items can be used that for the Indian products or that can be used in the global supply chain. So I am happy to say over here that we have already secured a order for one of the international companies for meeting their offset obligation and also may be the items being supplied by us could be in their products which they will supply in the international market. So this is an indirect way of becoming an exporter. The direct way is that you compete against international companies and compete in the tenders for other countries. I presume that is still a step away. We would not be that big a player in the next few years to do that, but yes that is our aim and that is our desire. We desired to be an international company in the next few years, to be able to meet their requirement of other defense forces besides India, but yes that is a very difficult step and major step to be taken.

Moderator: Thank you. We will take the next question from the line of Arul Kaarthick from Karvy Stock Broking. Please go ahead.

Arul Kaarthick: Good afternoon. In the explosives, order book can you give split it between bulk and packaged explosives?

C. Subba Rao: Packaged explosives will not have generally the order book in the sense that order will come and we will sell it. It is not like Coal India kind of thing, it goes more through trade and something through export.



February 04, 2016

- Arul Kaarthick:** This is almost everything is from bulk explosive?
- C. Subba Rao:** Major part will come from bulk explosive and of course some detonator, some fuse all that will be there, but major part is bulk only.
- Arul Kaarthick:** I can assume like more than 80% or something like that?
- C. Subba Rao:** At least 75% let us say will be bulk.
- Arul Kaarthick:** Average ammonium nitrate prices for nine months would be?
- C. Subba Rao:** I do not have, but it is actually being played by importers and say local manufacturers, now it is importation has become more possible compared to last year, it is happening after the sanctions are lifted on Iran, again it is falling down during the last may be 10 days?
- Vikram Mahajan:** What we have done as company this year in the last quarter or something we have gone in for import of AN. We understand the imported price of AN finally is slightly lesser than what we are getting in India so this is being streamlined by us. I will not say that we are able to meet say 50% of our AN requirement, but yes we are able to meet certain percentage of our requirement. Going forward, we will like to increase the import of AN if the price differential remains so and meet our bulk of the AN requirement from imports.
- Arul Kaarthick:** Any ballpark number like factory gates what would be the landing cost or something like that, ammonium nitrate?
- Vikram Mahajan:** We would like to double the rate at which we are buying, but we can certainly cheaper than what we are getting in the Indian market, because the figure at, which we are importing, would or be slightly are confidential figure with us.
- Arul Kaarthick:** At least like blended prices are also not possible?
- C. Subba Rao:** Leave that question.
- Arul Kaarthick:** Not a problem Sir and did the prices of detonators like recover in the market?
- Vikram Mahajan:** Yes, there is a slight moment in the trade market now. Detonator is basically in the trade market. Our understanding is that the prices of detonator are slightly firming up. So this is the season that means February, March, April and May is the season when the prices should firm up and go slightly high and we are already seeing the green shoots prices are going up slightly over there and I am little positive about the whole thing becoming better in the next three to four months.



February 04, 2016

- Arul Kaarthick:** Any numbers that you could give us around like above 4 or like 4.5 something like that?
- Vikram Mahajan:** We do not tell competitor the price we sell at.
- Arul Kaarthick:** In the defense, can you just break it up between Akash and Pinaka, did we get the Pinaka order Sir?
- Vikram Mahajan:** There are two models. One is Pinaka-I and one is Pinaka-II. Pinaka-I is already in the production stage. The Pinaka-I requirement is totally presently being met by ordnance factory Itarsi. In that case ordnance factory is integrator. So the rocket motor is being supplied by Itarsi. We are the second for Pinaka-I, but as of today ordnance factory has not bought even a single motor from us, though we have the technology, we have the capacity, we have everything ready with us. What we understand is that present requirement of the army is being met by ordnance factory Itarsi. So in case there is any future increase of the requirement, but Indian army which ordnance factory Itarsi is unable to meet may be then we come into picture that is one.
- Arul Kaarthick:** Pinaka-II also like we have got the approval and we have the product line?
- Vikram Mahajan:** I was just coming to that also. In case of Pinaka-II, Pinaka-II we had got developmental order which we have executed and if you are aware of the news that are happening that keep coming in the TV also. The Pinaka-II was fired in Pokhran sometime back where rocket motors are fired and we have got the report that our rocket motors are performed exactly what they were supposed to do. There was perfect performance by rocket motors and it was a good performance. We have got the appreciation letter also to that effect. So, now I understand that Pinaka-II is slightly at a design change it. The design has to be finalized and firmed up and sealed and then the government for the Indian Army as to say this is what we require and there is no other modification or changes required in that and then if they place the order, we will get the order. So, we are now waiting the next move by the government and the Indian Army.
- Arul Kaarthick:** Akash missiles in the 787 besides order book?
- Vikram Mahajan:** Sorry, can you bit louder please? Akash you said something order books?
- Arul Kaarthick:** In the 787 million, order book what is the composition of Akash missiles?
- Vikram Mahajan:** We will not like to divulge that, but yes it is an ongoing business with us and as you know India is deficient of missiles, we do not have any missiles of our own except may be now Akash and few others. So we see a good opportunity over there, so we understand the business and order will keep flowing in and we are not worried about that.



February 04, 2016

- Arul Kaarthick:** One more thing the run rate for Akash missile in general has crossed over 500? At least that has happened?
- Vikram Mahajan:** You are asking the same question by turning around?
- C. Subba Rao:** It is much more than do not worry.
- Arul Kaarthick:** Two service contracts, which we had with Jabalpur to Sriharikota both, are renew?
- Vikram Mahajan:** Not Jabalpur, it is Jagdalpur that has been renewed for five years, so I think this is a first year in that. So I think it is about 10-year contract.
- C. Subba Rao:** It is 2016 ending or somewhere 2017 early.
- Vikram Mahajan:** 2016 or 2017, the 10 years end and then there is an option clause to extend it by another 10 years by mutual consent. So we do not foresee any reason why, say no or why, we should say no.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** Order book number, could you repeat that explosives defense and services?
- C. Subba Rao:** Rs.159 Crores is explosives.
- Kashyap Jhaveri:** Rs.159 Crores.
- C. Subba Rao:** Yes, Rs.159 Crores, Rs.78.7 Crores for defense, Rs.31 Crores for the services.
- Kashyap Jhaveri:** On this Pinaka-II and in terms of Akash also has the government actually even put in orders for launching system or they have not put in order for launching also?
- Vikram Mahajan:** We should understand. In the case of Akash, Akash is already at the production stage, so that means orders for launchers and everything else would be done and the majority is supplying the launchers and everything. We already have production in order and order is on for the last three, four years or something, so that will continue. In case of Pinaka-II, they have gone and done the firing that means the launching system also would be in place and only thing over there is that it is still in the design stage. Pinaka-II is still at the design stage when it comes to production stage that is the time when the numbers increase.



February 04, 2016

- Kashyap Jhaveri:** This is about Pinaka-II. So, when you say launching system should be in place, my question is that are there regiments in the army in place in terms of x number which probably would be needed or again they still have only limited launching system that is what I wanted to understand actually.
- Vikram Mahajan:** The army gives 5 years or 10 years plan, MOD is approved with them that this is how they will convert their regiments to Pinaka systems. So each year, one regiment, two regiments, three regiments, four regiments would get converted into Pinakas. So, depending on that the number of launchers, and number of rockets would be decided. That is how the modernization of army goes ahead.
- Kashyap Jhaveri:** With respect per regiment is there the set number that they would have x many launchers and they would require x many rockets.
- Vikram Mahajan:** There would be a set numbers.
- Kashyap Jhaveri:** Would you share that number?
- Vikram Mahajan:** I am not authorized, but I am not to competent authority to share that. I am not the one who would be working those numbers, so if I give you some numbers, it could be incorrect or it could be right. I am not the correct person to give you those numbers.
- Kashyap Jhaveri:** One last question, Barak missile which we have tested with IAI, again there you know the same procedure would be there, there are still regiment conversion to be done and launching systems will come and then the rocket orders will be there.
- Vikram Mahajan:** That is right.
- Kashyap Jhaveri:** So, they are yet to form regiments, so launchers will be post that and the rockets will be once the launching systems are in place, would that be right understanding?
- Vikram Mahajan:** The development of the missile and development of the launching system will go hand in hand. So you cannot have a missile without the launching system in place. I am not the competent authority again to speak on that, but I will just tick in my neck out and just say that, because the moment you launch a missile, you would have launcher system almost in place. We foresee in that case that shown be too much of delay there. If you said that my missile is ready, you cannot say that my launcher system is not ready.
- Kashyap Jhaveri:** Final stage testing got over in December, which was in the newspapers?



February 04, 2016

- Vikram Mahajan:** We are told that testing is over and I do not know if that is final or not. You should be the best judge on that. What we understand or what we have is limited knowledge only on that. So, we have given that missile, there was one firing done in Israel which was fantastic and which is very good and then one firing which was done in India, I do not know everybody is aware of, so that also come off very well. We are very gung-ho very optimistic about the whole thing.
- Kashyap Jhaveri:** I will come back in the queue. I have some question.
- Vikram Mahajan:** To us it is a big achievement, because we are primarily concerned with development or the designing of the propellant with the help of DRDL and DRDO, so we will take a lot of pride in that.
- Kashyap Jhaveri:** If I can squeeze just one last question. Do we still standby that guidance which we had given in last two calls which is about Rs.190 Crores of revenue for the full year?
- Vikram Mahajan:** I will ask my CFO to take this question. It is a difficult question.
- C. Subba Rao:** So far we have made Rs.126 Crores or Rs.125 Crores. If we assume same third quarter will repeat, so that will become like 175 kind of thing. So we may stretch to 180, but 190 I guess it is difficult.
- Moderator:** Thank you. The next question is from the line of Sagar Gandhi from ICICI Securities. Please go ahead.
- Sagar Gandhi:** Can you please quantify the opportunity that you will be addressing over next 6 to 12 months? There have been a lot of capital acquisition that have gone through from the DAC, so how much of that you will be addressing over the next 6 to 12 months?
- C. Subba Rao:** The DAC may be vary these things about what we have seen in the newspaper it says about like the other investor was asking launching systems and all that all these orders go to say Tata, L&T those kind of people that is DAC where the orders of the big numbers are coming.
- Vikram Mahajan:** I will say like this whether those things get translated into actual orders also not is a remote question. We feel that the opportunity in the defense if we are able to address even 50% or 60% or what we understand is for us, if we are able to attend that it is a big opportunity for us.
- Sagar Gandhi:** How much that will be approximate numbers?



February 04, 2016

Vikram Mahajan: It is difficult for me to say that. I will just give you a figure over here. I could be wrong in giving this figure, but you please take it this way. We understand that one of the international companies has won an order for BMCS and the numbers we understand is 10 lakh numbers and at a rate of about we understand you can say \$180, \$190, \$200, \$210 somebody is quoting \$210, somebody says \$200, somebody gives some figure, let us take any figure of \$200. So, \$200 multiplied by 10 lakh number which we have won an order. So that is just one ammunition or one BMCS and everybody in the country, each and every company in the country wants to get into BMCS, so we want to get into that. You talk to any company in the country who is into defense says we want to do in BMCS, so does Premier wants to do BMCS. So that is opportunity only for BMCS I am talking about. Like this you can talk of different ammunitions, you can talk of different things. So opportunities are huge, till now we are giving all these money away to the international companies and foreign companies. Let us give it to the Indian company and let us see the results. Let us be patient. Defense is a patient business. It is a business where you need to be patient for three to five years and you all are Indians and we are Indians and we can assure you that the quality will be second to none and prices would be competitive, prices would be lesser than them. The deliveries would be better. When the army is fighting in Kargil or any other place the ammunition will be in place. We will work day and night to provide the ammunition unlike other people who will put sanctions and everything else. So it is on our own interest to get into defense. If we do not do as a nation, we will be shrunk. What Mr. Modi, the Honourable Prime Minister is running a fantastic thing. So we need all your support and all your well wishes and your prayer to be with us. We will succeed. We will succeed. We have no doubts in us.

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

Kartik Mehta: Gentlemen, good afternoon thank you very much for the opportunity. One is data point question. I just missed out the second quarter order book number the last quarter previous one for explosive, defense and services?

C. Subba Rao: That is Rs.159 Crores for explosives.

Kartik Mehta: That is for third quarter right. I am saying second quarter?

C. Subba Rao: Second quarter I did not keep because anyways that is past.

Kartik Mehta: Order book has been falling, so I just wanted to check the trend?



February 04, 2016

- C. Subba Rao:** As already explained order book will be falling because this will be happening in cycle, we get order for two years contract, so until the new contract order is given the order size will keep on going down.
- Kartik Mehta:** In that case, our revenue probably next year would be as of now we are talking about let us say Rs.48 Crores, Rs.50 Crores execution in fourth quarter, now Rs.150 execution in next financial year. So we have to win the fresh orders at least on the defense front if not from the explosives to over and above Rs.175 Crores or Rs.180 Crores likely revenue in this financial year that is what the catch is right?
- Vikram Mahajan:** I beg to differ with you and I beg to differ with my CFO. We need to win the explosive orders also. We need to win the defense orders also and we need to win the explosive order also, we will not let any quarters go, we will not let anything go very easily. Unless we are making a loss in some business, we would not like it go.
- C. Subba Rao:** Explosive is like tender base as and when it comes up.
- Vikram Mahajan:** We will be as aggressive and competent as other companies.
- Kartik Mehta:** There is only winning who need to get the new orders?
- Vikram Mahajan:** We need to get the new orders. Whole India may come in for the next tender may be a year or down the line, so we will as aggressive as anybody else in that tender.
- Kartik Mehta:** Another thing I wanted to know the export percentage in the nine-month revenue?
- C. Subba Rao:** Last year it is around Rs.10 Crores, this year it may be Rs.12 Crores to Rs.13 Crores.
- Kartik Mehta:** For the full year you are saying?
- Vikram Mahajan:** In the commercial explosives, we are likely to do better going forward, because we are slightly aggressive over there. So, we foresee our company doing slightly better than what we have been doing in last few years for the export market.
- Kartik Mehta:** So this Rs.12 Crores to Rs.13 Crores is entirely for the commercial explosives or something would be also for defense?
- C. Subba Rao:** Defense is very small this year, actually it may be little higher.
- Kartik Mehta:** What could be the offset revenue for this nine month out of the defense sector revenue of Rs.25.87 Crores?



February 04, 2016

C. Subba Rao: Amount we cannot reveal but it is like already explained by Mr. Vikram some element is there for towards offset. Developments some supply order, some of the amounts we have already booked and balance most of it will come in the next financial year.

Kartik Mehta: How do you see this offset, are you really seeing some sort of enquiry picking up compared to the earlier month?

Vikram Mahajan: There are positive moves on that. Offset is requirement and it is totally necessary also, the companies are talking to us seriously and we have already got one offset order.

Kartik Mehta: They would have to audit your facility before giving the offset order and also every process has been started?

Vikram Mahajan: They do not audit our offset facility, they come and visit our facility, they are generally happy with our facility almost all international companies have visited us barring a few of them and they have all been impressed and they have all been very keen to work with us, so we are getting enquiries from them, we are getting in touch with them and we are seeing how it also progresses.

Kartik Mehta: Last two question from my side. On Akash, you say last time that Bharat Dynamics is actually ramping up Akash output, so is it happening?

C. Subba Rao: What exactly was told but what I remember is Bharat Dynamics Limited is putting up a new plant, they have taken already land in Andhra Pradesh, but I do not know whether that is Akash or Alacem. Regarding the Akash, whatever the orders, which we are holding, that will be over by may be next few quarters, but we are expecting another round of order to take place.

Kartik Mehta: This Astra and LRSAM when do you see to be inducted in the process?

Vikram Mahajan: Our guess could be as good as your guess. Anything, which is in the design stage, we will not like a comment on that. When it comes to production stage we will not be able to comment on that. It can happen in next six months, it can happen in next two years.

Kartik Mehta: LRSAM has been tested in Israel as well as in India and it has been successful. So again there would be some comment to improve or it would be facing as a final testing that is what I would say?

Vikram Mahajan: What we understand that the design I think it has been frozen now, so they may go ahead with production sometime in near future and if some modification has to take place and that will take place subsequently. You cannot make a missile and then keep upgrading it without

February 04, 2016

going into production, lot of money is spent over there and this is meeting your requirement what we have set for. So we understand that the missile is meeting the requirements.

Kartik Mehta: Lastly on the margin front, Mr. Gupta said correctly in the second quarter concall that, we should be match full year numbers by way of better numbers in second half, already in the third quarter. So looking at Rs.45 Crores, Rs.50 Crores sort of quarterly run rate for the fourth quarter. Do we see 10%, 11% sort of margin to be also repeated?

C. Subba Rao: Let us wait and see we are doing our best to achieve that.

Kartik Mehta: But overall your best margins are yet to come. The other way around have you seen the worked in the margins and gradually it would see the uptick?

C. Subba Rao: Right now after this third quarter we got more confidence that the margins will improve.

Vikram Mahajan: We understand the cycle is turning around, so I think may be the worst is behind us.

Kartik Mehta: Because we have seen lot of lumpiness in our margins on quarterly basis, I understand there is some seasonality, but still there is a lot of lumpiness, so do you see that on steady state basis, we could be looking at least 9% plus sort of number coming up?

C. Subba Rao: Let us see, which we are discussing earlier, how much really it can improve and the product mix going to be there in the next coming quarter. When defense contributes more in the turnover, our margins also will certainly improve.

Vikram Mahajan: We are hopeful of the margins improving in the near future.

Moderator: Thank you. The next question is from the line of Shankar Dutta from Kanav Capital. Shankar. Please go ahead with two questions.

Shankar Dutta: Thank you for the opportunity. Out of the current order book in the entire segment, what is the quantification for the export orders?

C. Subba Rao: Out of the total order approximately Rs.20 Crores will be the order book for exports, but most of it will come only next year.

Moderator: Thank you. The next question is from the line of Abhijeet Vara from Sundaram Mutual Fund. Please go ahead with your two questions.

Abhijeet Vara: Thanks for the opportunity again. Firstly, what is the capex you envisaged for the next may be 15 months or two years?



February 04, 2016

- C. Subba Rao:** No idea as of now, because we were discussing already basically technology who is the partner what is the technology, what is the cost of the technology, those things are to be ascertained and then only we know what is the size and all we are still far away.
- Abhijeet Vara:** What would be the budget at least?
- C. Subba Rao:** There is no budget as such. Whatever our regular capex may be Rs.3 Crores, Rs.5 Crores, Rs.7 Crores kind of thing may be happening on an annual basis, but for the ammunition and whatever the new products there is no ballpark figure.
- Abhijeet Vara:** Secondly, you mentioned earlier when I asked for the execution of the order book you said Rs.50 Crores in Q4 and Rs.150 Crores next year. If it is Rs.150 Crores next year, it will be decline in revenues, so till when can you receive orders, but still execute in the same quarter as in suppose if you receive orders even in Q1, Q2 of next year. Can you execute and book revenues in the same year, next year? Is that possible?
- C. Subba Rao:** The orders on hand is Coal India and these things. The exports or the trade markets for detonators in all that it will come and it will go. So those things we are not counting in the order book. So whatever are actual sales will be there against what we cannot quantify as an order. So Rs.150 like some order and whatever the trade market sales that will come and get executed. So, we cannot say, because what I am saying Rs.150 Crores next year, so our turnover is going to Rs.150 only.
- Vikram Mahajan:** Rs.150, the CFO mentioning is only from organized sector. What happens is, the Coal India contract is finishing in the month of June, prior to that three months or four months prior to that they will initiate the next tender. Prior to the tender getting over, the next order would be in hand. So may be from first of July you will need to execute the next order. So that is how it has taken care of.
- Abhijeet Vara:** Defence, what will be the revenue guidance for next year?
- C. Subba Rao:** It should be around Rs.45 Crores. I am not saying the likely sales. I am only saying the current orders. If we get any additional order, then it can be more.
- Moderator:** Thank you. The next question is from the line of Sameer Narayan from Adani Advisory. Please go ahead.
- Sameer Narayan:** Team, I just wanted to figure out what is the extent of the order book that you say on the explosive side, now part of it would be a long-term contracts like coal etc, Coal India, so out of that 159, what would it be right to assume that large portion would be that whatever



February 04, 2016

it comes in case there are some states give up some mining or something, would that be additional on top of it or how it will work?

C. Subba Rao: That will be additional.

Sameer Narayan: Right now this 159 as we understand it is completely from your long-term arrangement, which would be regular?

Vikram Mahajan: These are 159 are tender which we have one and again which we need to supply.

Sameer Narayan: Could you also comment as to how do you see the mining revival, because we are pretty much there has been nothing, but after the coal block auction has some activity started picking up or how is it like?

Vikram Mahajan: Now it is just picking up. We are seeing pickup in the last month-and-a-half.

Sameer Narayan: In terms of people who are already wanting to open existing mines or mine have closed how is it like?

Vikram Mahajan: The existing mines, which were closed, they have started working now. So, they are approaching us for supplies or may be they are going in from smaller tenders. We see those players are slightly smaller compared to Coal India the requirement is very less. They are going in for requirements.

Sameer Narayan: On the defense side, since obviously you have been in it for sometime how do you see the timeline playing out in terms of as you said that the JV with Bharat Forge you are right now in the tendering process, so have they told you as to you know why when would tender be finalized and when would be actually start looking at setting up facilities and commercializing etc?

C. Subba Rao: I am assuming at least 18 months kind of time before we opening the tender and then finalizing the plans for the capex and all that should be 12 to 18 months.

Sameer Narayan: You have already been a bit strategy in terms of acquiring the land prior to two years, would that be the right understanding?

C. Subba Rao: No, actually acquiring the land was started may be four years back or five years back.

Sameer Narayan: So, in terms of the tender coming through would you need to acquire more land or how does it work?



February 04, 2016

- C. Subba Rao:** We will use the existing land for the time being.
- Vikram Mahajan:** The kind of facilities or the kind of what we need to do we may be required to acquire more land.
- Sameer Narayan:** The point I am trying to understand is 250-acre is what you would have envisaged apart from make in India initiative is that the right understanding?
- C. Subba Rao:** Whether Make in India or whatever, what we did when we were starting this supply of propellants for the missiles we were little confident at that time some day opportunity will grow, but of course we did not envisage Make in India, or Modi government coming and doing so much on the defense, but certainly we are hopeful that defense is the good area to enter in.
- Moderator:** Thank you. The next question is from the line of Shankar Dutta from Kanav Capital. Please go ahead.
- Shankar Dutta:** Thanks for the opportunity. What is the percentage of coal coming from Coal India?
- C. Subba Rao:** Coal India if you take bulk explosives and detonators and all that may be around 50% or little more.
- Shankar Dutta:** In the explosive?
- C. Subba Rao:** Overall turnover.
- Shankar Dutta:** You said the margins makes improve if we increase our sales in defense? So what is the margin, ballpark number for defense, explosive and coal services?
- C. Subba Rao:** That we cannot reveal anyway sorry for that.
- Shankar Dutta:** Any ballpark number?
- C. Subba Rao:** No.
- Shankar Dutta:** First is the defense and second would be the margins?
- C. Subba Rao:** Certainly it will be in that order.
- Shankar Dutta:** Defense, explosives and service?

February 04, 2016

- C. Subba Rao:** More or less because services actually will fluctuate depending upon the maintenance requirements at the plants where we are having the contract and that also when we started the contract that was relatively new machinery at that time. As the time passes maintenance of the machinery increases, so margins also will keep on fluctuating.
- Shankar Dutta:** So, the margins improve as the machine life?
- C. Subba Rao:** Maintenance requirements will increase that means margins will come down.
- Moderator:** Thank you. The next question is from the line of Dilip Vora from Equity Company. Please go ahead.
- Dilip Vora:** What I can understand from this result is that revenue has grown by 19% on quarter-on-quarter and 30% odd year-on-year. So what I understand is and I wanted to understand from you is it the volume growth or price growth of the products concerned in the portfolio due to which the revenues has increased this year?
- C. Subba Rao:** You can say volume growth, because the new Coal India order we got significantly is higher than last year, but price is very competitive. We have to reduce the price compare it to last year.
- Moderator:** Thank you. The next question is from the Manish Mahawar from Edelweiss. Please go ahead.
- Manish Mahawar:** Just wanted to know in this year so far next months, how is the industry in explosive industry I am talking about, what was the industry growth and especially in the coal as well as non-coal side?
- C. Subba Rao:** Coal side, even Coal India is ramping up their production. ...
- Vikram Mahajan:** In the case of Coal India itself, what they are asking us, whatever order they have given they are almost asking us to supply 120% that means 20% extra.
- Manish Mahawar:** Coal India production was up by I think 8% right so far?
- Vikram Mahajan:** Coal production is picking up. The coal industry process I think doing well now. So, the requirement is more. What is happened in the tender, which was somewhere, last tender of Coal India the competition was pretty stiff. So the prices have dropped a little.
- Manish Mahawar:** How much was the price decline as per your total?



February 04, 2016

- C. Subba Rao:** It is I think 8% to 10% was decline.
- Manish Mahawar:** What about the non-coal side demand?
- Vikram Mahajan:** Non-coal side also demand is now picking up because the construction activity is picking up, infrastructure is picking up, so the demand is picking.
- Manish Mahawar:** Do you see the double-digit growth in the industry, for explosive industry I am talking about in this year possible?
- Vikram Mahajan:** Double digit yes, it should be there.
- Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Bhupendra Shah from Corporate India. Please go ahead.
- Bhupendra Shah:** I want to know that this Rs.3.70 Crores, VRS cost, which you have taken in this nine-month results, is it everything being covered or there will be some addition in the Q4 also and how the company will be benefited in financial year 2016-2017?
- C. Subba Rao:** This is the total amount that was already booked into the expenditure. We are not anticipating any further amount in Q4 even if something it will be very marginal amount not a substantial amount.
- Bhupendra Shah:** One more thing I want to know about corporate governance many times I have observed that we come to know through defense sites, websites, news is already announced and when it comes to reporting to BSE, we see that our company is reporting very late, so can I know and sometimes details are also given incomplete. So that is the thing, which I humbly request that it should be avoided to extent possible.
- C. Subba Rao:** Let me tell you like this. You may be talking about may be licenses. You can go to the Government of India site and see who has participated and who has got it, but we cannot report based on that. When we receive the ink signed copy only, we will update. So, the data of Internet is much faster, actually there is no need to see even may be company site. If you are getting all the information from the other sites then let us leave it there, because we cannot go by what is available in the market. We will go by when we receive the information authenticated.
- Bhupendra Shah:** My point is to the extent possible it should be in public domain as soon as possible that is what my point is.



February 04, 2016

Vikram Mahajan: We got your point. We will just highlight licenses. Today, the DIPP meeting for licenses which are being considered, 50 licenses have been considered, by evening news if you put on any channel, you will know how many licenses have been passed and how many license have been rejected that is the information available to you, available to me also. But I cannot put it on the BSE or the website or my company till I get an ink signed copy with me.

Bhupendra Shah: Another complaint is about incomplete information being reported to BSE. For your joint venture with Israel Company, if you go to their site, they have given everything nicely in detail that what exactly they planned to do going forward with Premier Explosives Limited.

(Interruption in call)

Moderator: Ladies and gentlemen as there are no further questions in the queue. I would like to hand the conference over to Mr. Saurabh Ambaselkar for closing comments.

Saurabh Ambaselkar: I thank you all for your participation. I thank management and all the participants. Thank you.

C. Subba Rao: Mr. Saurabh, just a question, what actually that person is still on the line why this was disconnected?

Saurabh Ambaselkar: We can disconnect the line Sir.

C. Subba Rao: No that person who is asking about the Israel order and all that. He was still talking to us, but this was cut off suddenly, why it should happen?

Saurabh Ambaselkar: We can talk this afterwards.

C. Subba Rao: It will give a wrong sense to him that we are avoiding the question. He did not complete his question actually.

Saurabh Ambaselkar: We fell short of time. It was the one of last.

C. Subba Rao: There should be some beep that the time is getting over, otherwise it will give especially when he is making sensitive comment, if this happens that feeling will be further aggravated.

C. Subba Rao: You would have told him may be five minutes back that the time is getting over. Within five minutes this will be automatically cut off.



February 04, 2016

- Vikram Mahajan:** Because his perception is kindly different, we need to change his perception, we need to exactly tell him what the management is doing because corporate governance I think we are very open and we are very transparent.
- C. Subba Rao:** We need to put his concerns at rest. He should not go back thinking that we are trying to hide something or like that. It is not that. In case we can talk to him, we will just want to answer. Can you connect through, it may not be through this conference call even it is normal line. Can you connect to his place right now?
- Moderator:** We have the line for Bhupendra Shah, Corporate India connected again.
- C. Subba Rao:** Our understanding was the time was over and it was disconnected.
- Bhupendra Shah:** Because I also felt bad about that.
- C. Subba Rao:** That is why telling them it should not be happening like this.
- Vikram Mahajan:** We want to assure you as a company we are totally transparent and very honest company in our reporting. We do not report anything wrong and we do not report anything.
- Bhupendra Shah:** But you are making a general comment, you have not still replied too much specific question about Israeli joint venture. If you go to their site, they have given everything in detail one can appreciate and I hope proud that I know Premiere Explosive Limited is an Indian company, but when it comes to your site and reporting to BSE I am not seeing the same spirit, I am not doubting your bonafide, but I am not seeing the same thing if they can openly publicly and they can put in public domain at their site then why at least our company is not reporting in the same spirit to BSE let us everybody know let it be in the knowledge of everyone that is what my point is.
- Vikram Mahajan:** We have not seen the site of IAI.
- Bhupendra Shah:** Kindly go through it and I will appreciate if you can come back to me on that. Future also for anything let it not be restricted to five to seven people, let it be to the knowledge of public, what is there? We are doing well then why we should hide?
- Vikram Mahajan:** We are not certainly reporting any four or five people, whatever is told to everybody Sir and secondly I just want to put over here in defense, it is a slightly sensitive issue Sir, so what we are doing we want to not tell too much because then the competitors are there, this is a very competitive environment, you will understand that.



February 04, 2016

Bhupendra Shah: By sitting here I can go through their site, what is their size of business and what they are in the world today, it is a multinational company and then can openly go and put everything at their side and why we cannot.

C. Subba Rao: We will have a look at their site. We will see what they put.

Bhupendra Shah: I will appreciate if you can just revert back to me on that, it will give me a lot of satisfaction.

Moderator: Thank you. As there are no further questions in the queue I would like to hand the conference over to Mr. Saurabh Ambaselkar for closing comments. Thank you.

Saurabh Ambaselkar: I think all the doubts is cleared now. On behalf of S-Ancial, I thank management and all the participants.

Moderator: Thank you. Ladies and gentlemen on behalf of S-Ancial Global Solutions Pvt Ltd that concludes this conference call. Thank you for joining us. You may disconnect your lines.