



HERE IS WHY

- A good financial performance in FY11, consistent dividend paying history and an expected growth in volumes.
- Union Budget 2011-12 has provided for an 11 per cent hike in the defence allocation.
- Preference to indigenous design, development and manufacture of defence equipment.

BEST OF LAST ONE YEAR

Company Name	Reco.	CMP (₹)	Gain %
Asahi Songwon Colors	60.25	102.00	69.29
UCO Bank	70.35	94.00	33.62
Himalya International	20.00	24.60	23.00
Amar Remedies	87.00	103.50	18.97
Ind-swift Laboratories	79.90	94.00	17.65
Ester Industries	37.85	43.00	13.61
United Bank Of India	94.00	96.00	2.13
Samkrg Pistons & Rings	78.65	80.00	1.72

CMP as on June 29, 2011

MONTHLY STOCK MARKET RETURNS



Premier Explosives

Expect A Big Bang!

There are some counters that hardly get to the attention of investors despite having a good value. We have been doing this job of exploration for our readers and this time we are recommending Premier Explosive Limited (PEL) which manufactures detonators and bulk explosives. The compelling factors include good financial performance of the company in FY11, its consistent dividend paying history which provides a current cum-dividend yield of 2.66 per cent and finally an expected growth in volumes due to an increasing demand from the mining companies as well as the defence sector.

Additionally, some amount of improvement in realisation is also expected. On the valuation front its CMP of ₹74 discounts its FY11 earnings by 6x which is much lower than the 21x commanded by Solar Explosives which is also into the bulk explosive business. Even its EV/EBITDA of 3.58 seems to be attractive.

PEL manufactures bulk explosives, detonators and other products like Boostex, CL-20 KG, HNS and propellants. As far as its revenue contribution is concerned, 38 per cent comes from bulk explosives, 30 per cent from detonators and the rest comes from the other products. Similar is the contribution at the EBITDA levels. As regards growth from its different segments, the company expects a major volume upsurge to come from the bulk explosive segment with good demand being generated by the coal mining and other mining companies. With clarity seen emerging on the Go & No-Go Areas' front from the Ministry of Environment, some volume growth is expected. In the detonators segment, the management has stated that a few years back the company had initiated the production of propellants and other products for supply to defence establishments and has proved itself as a reliable supplier, meeting the stringent quality parameters. There are two factors that are expected to drive its positive performance. The first is the Union Budget 2011-12 that has provided for an 11 per cent hike in the defence allocation. Secondly, under the new Defence Production Policy 2011, preference will be given to indigenous design, development and manufacture of defence equipment. Both the factors are likely to result in volume growth.

PEL is also into exports and earned around ₹5.50 crore revenues in FY11 from outside of India. For FY12 the company expects its exports to increase by 50 per cent and touch a level of ₹8 crore. While there is the assumption of volume growth, realisations are not expected to improve much. Further, being a seasonal business, Q1FY12 will not be good on the financial front. So rather than buying at one go, one can accumulate the stock over a period of one quarter. The company has been paying dividend on a consistent basis since FY04 and with ₹ 2 per share dividend for FY11, the cum-dividend yield stands at 2.66 per cent. So this is an added advantage. On the financial front, the performance was very good and it posted topline of ₹95.13 crore and bottomline of ₹10.02 crore as compared to ₹89.71 crore and ₹5.94 crore respectively in FY10. With volume growth of more than 15 per cent and a marginal increase in prices, the company may post topline of ₹110 crore and bottomline of ₹11.50 crore, resulting into an EPS of ₹14.15 and a P/E of 5.30. This provides good scope for upward movement and hence we recommend a 'buy' on the counter with a target price of ₹90.

SHARE HOLDING PATTERN AS ON 31/03/2011

Indian Promoters	41.03
Mutual Funds and UTI	8.73
NRI's/OCB's/Foreign Others	6.14
Directors/Employees	0.25
General Public	43.85
GRAND TOTAL	100

LAST FIVE QUARTERS (₹/CR)

	Mar 11	Dec 10	Sep 10	Jun 10	Mar 10
Sales	27.48	21.63	21.62	24.4	22.9
Other Income	0.37	0.13	0.19	0.62	0.22
Operating Profit	4.58	3.2	3.69	4.82	5.32
Interest	0.19	0.2	0.18	0.2	0.46
Depreciation	0.46	0.44	0.44	0.44	0.43
Net Profit / Loss	3.07	1.84	1.95	3.16	1.46
Equity Capital	8.13	8.13	8.13	8.12	8.12

(The analyst does not hold any shares in the company. Wish to comment on this article? Send your feedback to comment@dsij.in)