



“Premier Explosives Limited Q2 FY2022 Earnings Conference Call”

October 29, 2021



**MANAGEMENT: MR. T.V. CHOWDARY – DEPUTY MANAGING DIRECTOR
MR. SRIHARI PAKALAPATI – CHIEF FINANCIAL OFFICER**

MS. HINA AGARWAL – STELLAR INVESTOR RELATIONS



Premier Explosives Limited
October 29, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Premier Explosives Limited Q2 FY2022 Earnings Conference Call. 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 Ms. Hina Agarwal from Stellar Investor Relations. Thank you and over to you Madam!

Hina Agarwal: Thank you. Good morning, everyone. I on behalf of Stellar Investor Relations welcome you on Premier Explosives Limited Q2 and H1 FY2022 Earnings Conference Call. We shall be sharing the key operating and financial highlights for the quarter and half year ended September 30, 2021. We have with us today the senior management team of Premier Explosives Limited, Mr. T.V. Chowdhary – Deputy Managing Director and Mr. Srihari Pakalapati, CFO.

Before we begin, I would like to state 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 e-mailed to you. Now, I invite Mr. Chowdhary to share his initial remarks on the company's performance for the quarter. Thank you and over to you Sir!

T.V. Chowdhary: Thank you Ms. Hina. Good afternoon, everyone. Thank you all for joining the call. I wish you and your family the best of health and spirit over this festive season. We will begin the call with the key industry update followed by our update on the company's operational performance during the quarter.

To begin with, we would like to congratulate DRDO on the successful test firing of the Akash Prime missile, the latest addition to the country's integrated guided missile development programme and mega defense boost. The government has announced a series of reform measures and initiatives over the last couple of years aimed at transforming India into a hub of defense manufacturing including increasing foreign direct investment in defense manufacturing, creating a separate budget for purchasing the locally manufactured defense products and notifying the list of 209 items subject to an import embargo. In keeping its efforts to increase self-reliance in the defense sector through increased private participation, the Ministry of Defense recently submitted a proposal to shorten the time required to acquire defense equipments to two years from the current average of 3.5 years



Premier Explosives Limited
October 29, 2021

without involving research and development. This is to boost the private participation in the defense sector.

Furthermore, DRDO India's premier defense research organization is adopting the GOCO model to open its doors for private players. DRDO provides access to its network of 50 laboratories located across the country. Its asset is worth more than Rs.1 lakh crore. This further reflects the Union Government's commitment to expand private sector and priming it to play a new role in India's defense capability enhancement. Premier Explosives as a major player in the defense industry stands to benefit significantly from these initiatives.

Now, coming to our company's performance, fiscal 2022 began on a somber note due to the disruption caused by the second wave of COVID-19. However, with an increased vaccination drive and decrease in active COVID-19 cases our execution returned to normalcy in the second quarter. Additionally, our dispatches have restored to normalcy as the number of COVID-19 cases continues to decline. We remain committed to sustaining the momentum and efficiency of our execution. With increased contribution from the defense segment, we expect operating margins to continue to expand in the future.

Let me update you on the status of a few significant orders. Our Chaffs and Flares execution is proceeding as expected. The dispatches that were delayed in the first quarter of the fiscal due to the second wave of COVID-19 have been restored and we expect to complete the order within two years' time period. On MRSAM, the production is fairing well and is continuing to supply 20 to 24 rockets per month. For Astra, the production has started in the month of July and BDL has indicated that the required quantity of hardware which have to be given as FIMs are ready and we are expecting a good contribution from this.

Recently, Indian Air Force has signed a contract worth Rs.497 Crores for procurement of Akash missile. This provides the visibility of higher order inflow of Akash missile in the near future. BrahMos, we have completed the absorption of technology transfer in terms of propellants. Now, we are waiting for FIMs to be issued for proceeding with the casting of full-scale motor. In addition to that, other orders which were in pipeline with DRDO is ASL Labs, they are received by us and the production activity has started in the Katepally unit for these labs parameter rocket motors.

Rocket motors from Israel - from the orders received from Israel we have executed three orders and among the three one of the motors we have received an enquiry for the production order. In addition to this, another four orders are in execution and one more



Premier Explosives Limited
October 29, 2021

order also is going on and we expect to complete these orders as per the schedule. Now, I request our CFO to share the financials.

Srihari Pakalapati:

Thank you Sir. Good afternoon, everyone. The result presentation for the quarter has been uploaded on the stock exchange 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 September 30, 2021. The total income for Q2 FY2021 stands at 548 million as compared to 453 million in the corresponding previous last year. EBITDA stands at 69 million with EBITDA margin of 13%, resultant of improved contribution from the defense segment. In Q2, we reported a net profit of 30 million.

Now coming to the order book, the company's current total balance order book stands at 4314 million out of which commercial explosive business comprised around 1143 million. The defense segment comprises of 1630 million and services is about 1540 million. With this, we now open the floor for Q&A. Thank you very much.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar:

Sir my question is you have given the break-up of the order book in your PPT also and right now that there is a commercial explosive order book. There is a view that in management of raw material everybody is having a tough time. Can you highlight what is your procurement strategy for procuring ammonium nitrate or the internals you can share and what is the margin outlook in that segment?

T.V. Chowdary:

Yes, like you rightly said the entire industry is suffering because of the raw material prices particularly ammonium nitrate availability and prices of raw material. There are various actions taken by us to meet that. One is to depend on imports where the prices will be a little lower than the domestic prices. To meet that requirement, we need to have larger storage capacity and we have built a larger storage capacity at our Godavarikhani unit. With that, I think we should be able to easily import more quantity and meet the requirement. In addition to that, the domestic suppliers like GNFC and RCF, we are trying to procure more quantity from them and that too in terms of melt and other things and also trying to reduce the price by going for quantity discounts. Third is technically looking at the product and then alternate raw materials and alternate things. As you are very much aware that we are R&D based and then when the real need comes, we come out with full shelf. We are



Premier Explosives Limited
October 29, 2021

working very hard on that to ensure that with alternate solutions for the raw materials and alternate prices we can do that, and we are hopeful that we will overcome this with that.

Bhagyesh Kagalkar: Okay, coming to Akash book that we are doing, this is for the current generation of Akash missile, I mean even in Pinaka there were next generation Pinaka system coming with 75 km range that is the update, so for future programmes also this will help that we are existing supplier to BDL as well as DRDO, am I right in my interpretation?

T.V. Chowdary: It is not clear; do you mean to say that our continuous supply to BDL?

Bhagyesh Kagalkar: Yes, Akash next generation is coming and even the Pinaka next generation missiles are coming with 75 km range, so our continuity is assured or there is a competitive element over here also for the next generation of missiles, both Akash as well as Pinaka?

T.V. Chowdary: It will continue. Actually, Akash we are already going ahead. Akash is an ongoing project. We are continuing to supply, even today we are supplying to Akash project. Even though BDL is waiting for the IAF order, they are releasing orders to us so that they remain in a prepared condition to deliver immediately, so that is going on. In addition to that, the new things which are coming are MRSAM, LRSAM, NGRM, Astra, so in all these missiles we are in an advantage position to supply. Yes, definitely we will play an important role in all these.

Bhagyesh Kagalkar: Sir, Astra programme you mentioned. For Astra, over the long run this procurement will be very large from the forces, IAF obviously. For Astra programme, air to air missile, we will be giving the motor only and not the other stuff, is that what the PPT mentioned?

T.V. Chowdary: No.

Bhagyesh Kagalkar: Propellant we have mentioned, so these are two things that we will give.

T.V. Chowdary: Yes, propellants and other initiatives and all we are giving. We are with only that part. For the hardware and all those, there are other vendors. BDL is the integrating agency.

Bhagyesh Kagalkar: Okay, thanks Sir. All the best.

Moderator: Thank you very much. The next question is from the line of Shivan Sarvaiya from JHP Securities. Please go head.



Premier Explosives Limited
October 29, 2021

- Shivan Sarvaiya:** Good afternoon Sir, a couple of questions. One is on the order book. Our defense order book if I see, the trend has remained in the range of 160 to 180 Crores after removing the Turkey order. Just some colour if you give on the trend forward and is there some slowdown or some consolidation there?
- T.V. Chowdary:** No, I do not think there is any slowdown rather the order book is going on swelling. We are getting more and more orders, and you can see the increase also. There is no slowdown. If at all any, it is such impression.
- Shivan Sarvaiya:** Okay Sir and out of the defense order what is the proportion of the Israeli order book?
- T.V. Chowdary:** Israeli order book proportion wise it will be...
- Shivan Sarvaiya:** It was 25 Crores at the end of Q1 out of the total defense order book, so I just wanted to know that number for this quarter. The absolute number is also fine.
- T.V. Chowdary:** We have about Rs.30 Crores orders on hand from Israel which we plan to execute in the current year and please mind it these are all development orders not the production orders. Once we complete the development then like I mentioned in my earlier days that out of the first three supplies made one has now come to production order and then we are working on that. Others are also in the line. This Rs.30 Crores is only for the development stage and once they get converted into production then it will go into much larger numbers of hundreds and thousands.
- Shivan Sarvaiya:** Okay. This order that got converted from a test order to the production order, what is the quantum of the order if you could give an idea of what it would be when we get it?
- T.V. Chowdary:** Generally, where we are signing the order and all after the development there is an indication. There is no written confirmation which comes. It comes only once our product is cleared and then static test. Now in India we are doing static test. They are going to design for dynamic test and then they will release the order. The indication like I mentioned is some hundreds to thousands, exact figure item wise we will not be able to tell you.
- Shivan Sarvaiya:** Okay and we expect these production orders to come in, in the second of the year?
- T.V. Chowdary:** No, next financial year we can take. For the second financial year there are already development orders in hand like I mentioned around 30 Crores worth.



Premier Explosives Limited
October 29, 2021

- Shivan Sarvaiya:** Okay, Sir you spoke about this one order which has gone into production so that is what I was trying to decipher.
- T.V. Chowdary:** That has not gone into production, now they have indicated the production quantities and all those, they have asked us to get ready for that because out of the three numbers supplied one number, they have test fired and found it all right and now they are talking about the production. Probably in a month's time the other two also will come around.
- Shivan Sarvaiya:** Okay, these three orders you expect them to be starting to fulfill in FY2023.
- T.V. Chowdary:** Yes.
- Shivan Sarvaiya:** Okay, got it. And in this quarter, we have seen a bit of margin decline in terms of our GP margin also. Of course, Q-o-Q view is not right, but any reason for this dip in the GP margin from the last quarter and the March quarter, because those were in the range of 70% odd and we have come down to 50%, just wanted to understand the gap here.
- Srihari Pakalapati:** This is mainly because of the product mix. The raw material consumptions are more in the product where we have done mostly in the previous quarter. Even in defense products, there are certain products where the raw material consumption is more. So, that is only because of the product mix and nothing else.
- Shivan Sarvaiya:** Okay, and the raw material prices which are pretty high and they are increasing, are we able to pass it on or how does the raw material prices get passed on to our clients?
- T.V. Chowdary:** In case of industrial explosives, there is a price escalation clause which takes care of the increase in the raw material price and in case of defense products there is no such clause. Variation also is not so frequent that prices will change so frequently, but yes recently we are finding a slight increase in the prices, so it is order to order. The next order when we quote, we will consider that and the pricing will be on that basis.
- Shivan Sarvaiya:** Okay. Sir, we are confident of maintaining that 15% to 17% margin on the EBITDA, that is what we have been doing in the last couple of quarters, not this one?
- Srihari Pakalapati:** Yes Sir, if you see from the March quarter onwards, we are almost maintaining between 13% and 18%. Probably we know that it will be continued.



Premier Explosives Limited
October 29, 2021

- Shivan Sarvaiya:** Okay, and a couple of book-keeping questions. One is that when I look at the cash flow statement of the first six months, it is negative as there is cash flow instead of cash generation considering we have got a positive EBITDA, when I look into it a lot of working capital has eaten away our cash flow, so is there any reason for this build up and how do you look at it going forward?
- Srihari Pakalapati:** Because the stocks in defense have gone up. The inventories have gone up. Like in previous quarter we have explained we have become more and more of a defense manufacturing company where the turnaround of money is a little slower compared to the industrial explosives, while the shift is taking place naturally the cash flow also changes because the product is produced and it takes delivery and inspections and all those, then only we get the payment, that is the difference between the industrial explosives and the defense.
- Shivan Sarvaiya:** Okay, and I see a small increase in the bad debt in the cash flow statement, any reason for the same and from where these bad debts emerge?
- Srihari Pakalapati:** Basically, we have written off some of the book debts, these are coming from a long period. Mostly it came from some of the commercial explosives and some from the defense also.
- Shivan Sarvaiya:** There are bad debts on the defense side also considering this is a government that we are supplying to, so I was a little surprised to see bad debts on those?
- T.V. Chowdary:** It cannot be termed as bad debt in fact. It is we have raised the bills previously. There were some issues related to LD (late delivery) clauses. Some of the old orders got delayed because of the COVID pandemic and all those. In many cases we could convince and they have understood and then they have extended the delivery period, but there are some issues where it was not done and they refused to accept then we had to write off some of that. These are like the bad debts. Some are there, where the order was received and the old tax remained, where the tax was different and concessional rate was different. Now the present tax has changed and now there is a concessional rate for DRDO supplies, so now they are insisting on only paying the tax rather than the whole supply tax. These are things which have given a little risk.
- Moderator:** Thank you very much. The next question is from the line of Mihir Desai from Desai Investment. Please go head.



Premier Explosives Limited
October 29, 2021

- Mihir Desai:** Thank you for the opportunity. Sir my question was regarding you had earlier mentioned that there is an opportunity coming in MRSAM and LRSAM, another few missile programmes. Can you please quantify the opportunity size of the same?
- T.V. Chowdary:** This information is there in the internet, what the Army is procuring or Air Force is procuring, so I think probably you can get from those.
- Mihir Desai:** Okay, and in terms of quantity, can you quantify?
- T.V. Chowdary:** They are there in the internet, what are in our hands and what is coming only we can do.
- Mihir Desai:** You cannot even give a ballpark number Sir?
- T.V. Chowdary:** Yes, already 1000 number order we had received and we have executed a part of it, and then the balance is going for MRSAM. For Astra, we already have an order in hand for 250 numbers for which we are waiting FIMs to be issued. Like that, what we have in our hand is there, but for opportunity it is better if you look in that you will get better figures rather than we telling that.
- Mihir Desai:** Sure Sir understood. Earlier you had also mentioned regarding the rocket motor, what would be the size of these four rocket motors that you had mentioned for export?
- T.V. Chowdary:** These are in the tactical missile category. Tactical missiles are those in the medium sized or small sized ones which are carried by aircrafts or fired from ground level, surface to air, air to air, surface to surface, and all those things. Strategic missiles are the big ones, large diameter, Agni class and all those. What we are exposed to are the tactical ones.
- Mihir Desai:** Sure, understood Sir. Also, I just wanted to know regarding the Katapally facility. As it is fully operational now, what would be the utilizations that we are operating if you can share the September, what was the utilization which we had operated?
- T.V. Chowdary:** It has just started. As you know, any project when it starts cannot be at 100% utilization. I do not know how to tell in terms of that. The orders we have booked, orders are in hand, we have started, and it is going on. The percentage utilization is difficult to calculate in those terms for these plants, where we are doing the large diameter motors. Unlike the other products every month you turnout so many hundreds of numbers. What we make in Katapally are large motors which are strategic. They are produced one in a month or one in three months like that. So, it is difficult to indicate about that. Even the booking of this also



Premier Explosives Limited
October 29, 2021

varies. For three months it will be like this and for three months it will be like that, so ups and downs will be there. We have to see at the end of the year how we have done.

Mihir Desai: Sir, at the end of the year what could be the average peak utilization that we can operate in this facility?

T.V. Chowdary: I cannot answer in terms of average utilization or percentage utilization there because product to product it changes. I do not know how to calculate the utilization thing for propellant casting because one rocket motor may be 2000 mm diameter, one may be only 15 mm diameter. They are all different and different requirements are there.

Mihir Desai: Sir, any further update on land allocation for setting up facility near Sriharikota?

T.V. Chowdary: It is going on. We have received the NOC from the local authorities and it is going on. Like last time I shared the collector of Nellore District visited our existing facilities and he went back and gave a press note saying that yes, they are allotting the land. After that, some NOCs have come to us. It is a long-drawn process. We will be sending those documents to government and then cabinet decision and all those will be there. So, the process may take another six months or so.

Mihir Desai: Sir, one question on DRDO front, you had mentioned that DRDO has now been opening doors for private players. Do you see any opportunity from these and if you can again quantify the kind of opportunity do you see from DRDO coming to our kitty?

T.V. Chowdary: DRDO does not buy material. They develop it and after the development they will go to the agencies like BDL for integration. It is where we get our full business. Opportunity from DRDO is okay in terms of participating in the development, we have participated in the development of Astra, LRSAM, MRSAM. Now, these got converted into and production opportunity for BDL. Opportunity will come from the integrating agency. Only DRDO is directly integrating the strategic ones and we already have three different orders with us. I do not want to discuss too much on the strategic.

Mihir Desai: Okay. Sir, my last question is on the book-keeping front. What would be our working capital days for this quarter ended?

Srihari Pakalapati: With regard to defense, it is coming at about 150 days. It is almost similar to previous quarter also. With regard to the commercial explosives, it is about 30 days.



Premier Explosives Limited
October 29, 2021

- Mihir Desai:** Okay, and also if you can share with us the fund-based and non-fund-based limit Sir?
- Srihari Pakalapati:** Work capital limit for fund base is 50 Crores and Non fund we have the limits of 150 Crores, which are not fully utilized technically. Second, we have the term debt of about 4 Crores from HDFC which will be repaid in the next six quarters. We have availed some MSME loans during the pandemic time which is about 8 Crores 37 Lakhs. The repayment will be starting from next month.
- Moderator:** Thank you very much. The next question is from the line of Dhavni Mehta from Sanghvi Investments. Please go ahead.
- Dhavni Mehta:** Good afternoon, thank you for the opportunity. I missed the earlier remarks. I just wanted to know last quarter you had mentioned that we had bagged an export order for warhead. I wanted to know what is the status of the order, have we received any order in this segment?
- T.V. Chowdary:** Yes, the order which I mentioned now we are in the stage of execution.
- Dhavni Mehta:** Okay, how does the order pipeline looking in this segment, are we receiving more enquiries from domestic or export market?
- T.V. Chowdary:** Yes, we are receiving enquiries from domestic as well as export market for this segment.
- Dhavni Mehta:** Okay, and lastly, how large is this segment can become in the next two to three years?
- T.V. Chowdary:** It looks good because one thing is warhead we are directly supplying. Second thing is now all these new areas where we are entering like the mines, mines we are producing and we are participating in mines. There also you require the warhead composition and high explosive compositions and all those. For ammunition also we have taken license, we are going to produce and will be using them. So, this segment has good potential for all those. We think that our 100% capacity utilization comes fair from whatever we produce.
- Dhavni Mehta:** Okay, just one more question. What is the revenue target for the current fiscal?
- Srihari Pakalapati:** We are expecting about 30% growth from last year, which is about 185 to 200 Crs
- Moderator:** Thank you very much. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.



Premier Explosives Limited
October 29, 2021

T.V. Chowdary: Thank you very much for participating in the session. I hope that we could answer all the possible questions and concerns, and then satisfy you. Thank you very much.

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