



“Premier Explosives Limited
Conference Call”

June 29, 2021



**MANAGEMENT: MR. T. V. CHOWDARY - DEPUTY MANAGING DIRECTOR
MR. SRIHARI PAKALAPATI – CFO**

ANALYST: MS. HINA AGARWAL - STELLAR IR



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Moderator: Ladies and gentlemen, good day and welcome to Premier Explosives Limited 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. Thank you and over to you!

Hina Agarwal: Thank you. Good morning everyone. I on behalf of Stellar Investor Relations welcome you all to the Premier Explosives Limited Q4 FY2021 Earnings Conference Call. We shall be sharing the key operating and financial highlights for the quarter and year ended March 31, 2021. We have with us today the senior management team of Premier Explosives Limited, Mr. T. V. Chowdary - Deputy Managing Director, Mr. Srihari Pakalapati – CFO. Before we begin, I would like to state some of the statements made in today’s discussion maybe forward looking in nature and may involve risks and uncertainties. Documents relating to the company’s financial performance had already been e-mailed to you. Now I invite Mr. Chowdary to share his initial remark on the company’s performance for the quarter. Over to you, Sir!

T. V. Chowdary: Good morning and thank you for joining the call. I hope all of you and your families are healthy and safe and I would take this opportunity to thank each and every employee at Premier Explosives for their continued support in navigating through the challenging times. The fiscal year 2021 was a challenging and unprecedented year on all accounts; however, a swift recovery was experienced during the second half on account of various measures undertaken by government of India followed by the rollout of the vaccine and last year’s Stellar Union Budget that is focused on giving impetus to the economy. At Premier, our focus was on maintaining our execution momentum and efficiency, which has led to post satisfactory topline despite tough initial quarters. Our intensified focus on the defence business is yielding results. Our defence contribution has risen from around 26% in year ending 2019 to 49% in year ending 2021 and with higher order intake from the defence space this is expected to improve further resulting in improved operating margins going forward.

Coming to the company’s major developments in the gone year, Katepally has made significant contributions to the growth, we received industrial licenses and also PESO manufacturing production license for manufacturing of all types of warheads, electronic and mechanical fuses and bombs. This was also mentioned on our earlier earnings call and we recently received our first order for the manufacture and supply of warheads amounting to

\$135,000 that is around Rs.10 million from Israel. With this a new avenue has opened for us for making warheads, up till now we are doing propellants and rocket motors, now we have the capability and we will be producing warheads for the missiles and rockets. In addition to warheads we will be also producing the bombs, which are guided and unguided bombs and this first order of warheads is going to be delivered in the first 12 months and this will be executed at Katepally facility, not only this Katepally facility also added one more, we have executed a trial order for tank ammunition that is 120 mm APFSDS from our Katepally plant and also we are going to execute the orders for mines that is various mines, which we have already acquired technologies. In addition, we have received orders for defence and commercial explosives totaling to Rs.562 million in the current quarter with improving export order intake bringing the current total order balance to Rs.4598 million. The total order book excludes the HMX and RDX order received from Turkey, which was cancelled, we expressed our inability because the export permit was not given for Turkey by government of India so this loss is taken care by additional orders we received and additional export orders we received for HMX and RDX. The company has also received export order for rocket motors. We have shared this information earlier, in addition to that further orders for development and supply of rocket motors we received from Israel and once these development orders are completed that will open avenues for bulk production of these rocket motors for export purpose and with all this we are expecting to break even at Katepalli factory within FY2021-2022 itself.

Now, I would like to update on the status of a few major orders. In the months of April and May the execution and dispatches were a bit hampered by the second wave of COVID-19 and on the other hand we did not face any significant issue on raw materials procurement front. With the reduction in COVID-19 cases we are witnessing improvement in execution and with the increased days of movement the order inspection has begun leading to improvement in dispatches. Our chaffs and flares execution is progressing well with the availability of imported raw materials and the delayed inspections are going to take place in the month of July and we are expecting to deliver this from July month onwards and the present orders of chaffs & flares are expected to be completed in two years period.

Coming to our rocket motors we have orders from BDL, the production orders for MRSAM and Astra rocket motors. MRSAM execution has already started and we are supplying at the rate of 20 to 24 numbers per month. Here the supplies depend on the free issue materials issued by the customer so as per their vision of that we are executing this, which is coming to 22 to 24 numbers per month and Astra motor we are producing for BRDL, but bulk production even though we have order the FIMs are expected to be issued from the month of July so this production has to start from month of July and continue. Further to the orders

in hand we have already received enquiries for next level of requirement for Astra, MRSAM and also for Akash. After completing the Akash previous orders in last year we received another 120 numbers supply order, which we have completed and they are going to be delivered in the month of July. We are expecting that Akash will continue to be at this level for the balance year. In addition to this, BrahMos is another area where we have qualified with the technology, but due to the delays caused by COVID and other issues the FIMs are yet to be issued by project. Once the FIMs are issued the BrahMos production also will start and this is going to happen in Katepally. The Katepally facility, which is bid for a large rocket motors is now producing rocket motors up to 2 meters dia, which we did not have the facility at Chandrapur, so we already have the orders in our hand from ASL and also PSOM-XL, which is strap-on motor for VSSC, these are being produced at Katepally facility and we are also working for that NSIL outsourcing of PSLV and we are hoping that we will hit in a big way. With the government putting a strong emphasis on improving the country's defence production capabilities in order to reduce reliance on imports and becomes self reliant through Make in India initiative we anticipate an increase in defence order activities and the new facility at Katepally will come to utilization further by producing mines, bombs and ammunition. Now, I request our CFO, Mr. Srihari to share the financial performance. I think I missed one of the important milestones I wanted to share is the first PSOM-XL produced at Katepally is being flagged off on June 30, 2021 tomorrow by Director VSSC, Dr. Somanath, so it is a joyous moment for all of us so I thought I will share that. Thank you.

Srihari Pakalapati:

Thank you Sir. Good morning everyone. The results presentation for the quarter has been uploaded on the stock changes and the company's website. I believe you all may have gone through the same. Now I would present the financial results for the quarter ended March 31, 2021.

The total income for Q4 in FY2021 stands at Rs.353 million as compared to the Rs.343 million corresponding period last year. Last year EBITDA for the quarter stood at Rs.71 million this is mainly due to the change in products mix and reduction of expenditure. The contribution from defence has gone from 38% to 49% during this period. The export orders from the commercial explosives segment also helped for the improvement of the performance. Significant reduction of expenses recorded during this period, which is about Rs.40 million has come down. In Q4 FY2021 we reported a profit of Rs.27 million. Now coming to the order book, the company's current total balance order book stands at Rs.5418 million out of it explosives business comprises of Rs.1293 and defence segment comprises of Rs.2527. Mainly this includes export orders consist of Rs.500 million, which is in SPD which we have Rs.350 million and commercial explosives, which is about Rs.150 million as



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on date. So with this we will now open the floor for questions and answers. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Bhagesh from HDFC Mutual Fund. Please go ahead.

Bhagesh: Sir, congratulations for good set of numbers in Q4. The operating margin has indeed gone up. The issue here is the Katepally plant, is it now getting fully commissioned at the end of this fiscal year with what appears the charges on the book, also the utilization in the plant will remain low in the first year, am I right especially and how much is the execution potential towards the key customers for the first time you are doing the 2 meter dia motor and most of the customer is doing BrahMos, corporation saying big order book is here, so what is the potential here can you quantify roughly at least?

T. V. Chowdary: It was commissioned during the Q4, actually we have capitalized the assets only on January 31, 2021 and the depreciation charges for the two months, which was about Rs.91 lakhs and order potential we already started receiving orders and we are executing already three orders from there, one is strap-on motor PSOM-XL and second is as I mentioned the 2-meter dia, it is called Veda project and we are also producing for, it is called A1P, these are all DRDO names and I do not think I would not be able to share all those, but yes we have already started receiving and utilization has already started. I think before the end of this year itself, by the middle of the year itself we will be reaching the utilization almost 80% utilization level.

Bhagesh: It is the government of India policy to encourage everywhere to export the ammunitions essentially, we have won an order from Israel what is the addressable market for us say in Southeast Asia, Israel or even Turkey because you are doing business with Turkey also ultimately?

T. V. Chowdary: No, we are not doing business with Turkey, the first order we received for HMX/RDX we could not execute we have informed them we will not be able to take the hit because this SCOMET license, which is needed for explosives is not given, but yes Israel order we are fully executing and also to Europe we are exporting commercial explosives and rocket motors and the warheads we are exporting to Israel and we are getting more and more orders as they are gaining more confidence in us. We have already executed three orders, three motors we have developed and supplied, based on that performance we received more



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and more. Right now our order book level is at Rs.400 million worth of export orders we already received from Israel for Katepally, which includes also HMX.

Bhagesh: Sir, just one clarification, as far as the rocket motors are concerned we are doing this stuff, who are the competitors for us in the explosives, is it OFB and Solar essentially even for these orders?

T. V. Chowdary: For many products we have no competitors. There are yes, for some products we have competition, but many products we do not have competition as on date. We are single source because we have developed those products.

Bhagesh: Thank you Sir. All the best. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Vineet Jain, an Individual Investor. Please go ahead.

Vineet Jain: Sir, I hope you are going well. Can you share some light on the incremental of the raw material pricing in the last call also you have mentioned about increase in the prices how it is impacting our P&L?

T. V. Chowdary: In fact it is affecting P&L, but it affected positively because some of the Coal India orders and all those anticipating that we did not take the orders because of that even though the prices have gone up some areas yes they are affected, but mostly we are not affected as much as others.

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

Milan Shah: Congratulations for a good set of numbers. I wanted to know what is the order value of the company as total?

T. V. Chowdary: Actually order book as on the date is Rs.4597, there is one more order from RDX category to the extent of Rs.850 million, so all put together it is coming to the earlier figure what we told Rs.5418 million.

Milan Shah: We are the first producer of HN and base detonators and we have given license to USA company right?

T. V. Chowdary: Yes.



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- Milan Shah:** So, we can get any royal from those companies and any line up to be given any other countries for those licenses?
- T. V. Chowdary:** No, that was an order for lump sum amount there is no regular royalty on it.
- Milan Shah:** Any line up in research and developments and expenditure for those researches?
- T. V. Chowdary:** Of course R&D keeps continuing, but that part is over, what now R&D is going on is on defence related products, they are like chaffs & flares what we are selling they are generated from in-house R&D only today they are contributing good revenue, so like I shared about development orders from Israel that is also R&D only, we are developing the missiles to their specifications and then being designed and supplied, so R&D is a continuous activity.
- Milan Shah:** The total debt of company.
- Srihari Pakalapati:** There is a working capital debtors from the banks is about Rs.373 million, so which is a regular working capital kind of thing and during the year we raised some money from GSS scheme government supported loan from HDFC we have received about Rs.53 million and SBI Rs.30 million, which is payable after 12 months, there is a moratorium period of 12 months, so this is about Rs.83 million there is an MSME loan, under the term loan of Rs.47 million, which is payable in the next 6 quarters, so this is getting repaid actually every quarter we are paying about Rs.65 lakhs so that will be repaid entirely in the next 6 quarters, so the working capital will continue like that and there is some unsecured loan from the promoter and our subsidiary company, which is about Rs.107 million, so this is all we have.
- Milan Shah:** Thank you Sir. Best of luck for the next coming quarters.
- Moderator:** Thank you. The next question is from the line of Manoj Tiwari, an Individual Investor. Please go ahead.
- Manoj Tiwari:** My question is Bharat Dynamics have recently inked contract with Defence Ministry for anti-tank guided missiles do we expect the order for the manufacturing and supply of propellant for the same, if yes, what will be the quantum of order if you can share?
- T. V. Chowdary:** No, this one is as we understand it is made from double base propellant we are not into that.

Manoj Tiwari: Thank you.

Moderator: Thank you. The next question is from the line of Kishor Agrawal, an Individual Investor. Please go ahead.

Kishor Agrawal: Thank you for the opportunity. My question is with regards to the margin, what drove the significant margin improvement in the quarter, is it only mix or was there any one off in the margins as well and my second question is with regards to your order pipeline so your order book as of March 31, 2021 has come down from last year's levels I understand the Turkey order is a component of that, but what is your order pipeline in rupees per absolute if you can quantify how much orders can you bag in FY2022?

Srihari Pakalapati: Actually the performance has improved due to the various reasons the main reason was the change in product mix. Yes, the defence contribution came in a positive way. The contribution from defence has gone up significantly during the quarter we expect it to continue in future also for the coming quarters first thing. Second thing there are a lot of reduction in expenditure if you can compare with the previous period there was a reduction in the expenditure, which also reflected in the bottom figure. The third one is the order book, yes, as you said the order book has reduced because of the Turkey order removal, we have removed the Turkey order as of March 31, 2021, but what we can say that we have received the significant orders in the last two-and-a-half months during the current quarter, we have received about Rs.643 million orders during the current two-and-a-half months, so in coming quarters also the contribution from the defence will be improved and in overall also we are expanding the growth of about 35% to 40% in the topline in the coming year and bottom I think we are hopeful that it will be good because of the products mix and contribution from the defence and we are also seeing a lot of reduction of losses in the commercial explosives because we are trying to get some export orders from commercial explosives wherein they are comparatively very good at least that also made difference during the last quarter, so it is a good positive improvement we can say, but topline will be about 35% to 40% growth we are expecting.

T. V. Chowdary: I would like to add one more thing here one of the major contributors is reduction of expenses in terms of employee expenses because of the VRS there is a reduction in employees and the employee cost and whatever increase happened in the last year was taken care by the reduction in the employees and the other expenses, so this also has contributed to reduced expenditure and increased profitability and now commercial explosives we are concentrating more on exports and a better value realization rather than

trying to achieve volumes that also has given a good contribution whatever business we have done in defence that is supported by this commercial explosives, thank you.

Kishor Agrawal: Thank you for the answer, just a followup, so I understand your other expenses and employee cost has come down, but also you had a significant improvement in gross margins, the quarterly gross margin is at one of the highest levels you have ever achieved is it primarily function of mix and do you expect this to continue?

T. V. Chowdary: Yes, that is primarily due to mix and it will continue.

Kishor Agrawal: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Shilpa Sen from Dhruti Investments. Please go ahead.

Shilpa Sen: Good afternoon Sir. Sir I wanted to know what is the impact of the second wave of COVID on our execution, as you mentioned that the dispatches have got delayed due to the delayed inspection so have the dispatches started now?

Srihari Pakalapati: Yes, the operations started, operations were continuing by staggering the shifts and all those, but the inspecting agencies, the third party inspecting agencies for defence products they were not able to travel because of this inspection, now we are expecting all those to start from July month, but our production continued now we built up the stocks and we are offering further inspection right now.

Shilpa Sen: Following up on the commercial explosives, which geographies are we targeting?

T. V. Chowdary: In the export market you are talking?

Shilpa Sen: Yes Sir.

T. V. Chowdary: That is there in our presentation everywhere to all the countries where we are exporting.

Shilpa Sen: Do we have a capex plan for FY2022; are we planning any major capex?

T. V. Chowdary: No major capex, there will be always something wherever we have to do when the production requires some balancing we have to do, but there is no major capex like Katepally plant something like that now.



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- Shilpa Sen:** Also if you could give us some guidance on the revenue and EBITDA for the full year FY2022?
- Srihari Pakalapati:** We are expecting a growth of 30% to 35% in the topline and bottom because of the better contribution from the defence we are expecting about 15% to 20% EBITDA kind of things.
- Shilpa Sen:** Thank you. I will come back in the queue for further questions.
- Moderator:** Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.
- Nitin Gandhi:** Thank you for taking my question. I wanted to know how much was the loss in commercial explosives in FY2021 and FY2020?
- Srihari Pakalapati:** I do not think we have that separate, it is calculated from the total company because the facilities are common.
- Nitin Gandhi:** So we were expecting that this year commercial explosives returning break even plus so I was just thinking of what is your take because it correlates to what the previous question was answered that last year the margins were somewhere around 4% and now you are saying that it is likely to be 15%, right?
- Srihari Pakalapati:** Yes, because of the defence production and defence products what we have, the export also is there, you must have noticed that the export orders we have significant quantity towards defence as well as industrial explosives.
- Nitin Gandhi:** Sir, what is the timeframe for the execution of order book for explosives and defence separately if you can share?
- T. V. Chowdary:** For defence, we have two years maximum, most of them are 12 months, some of them are in two years and chaffs & flares also for two years, then we have contracts that is service contract, service contract is the original order is for 10 years out of 10 we have completed two years, now balance is for 8 years.
- Nitin Gandhi:** Right and how you think that the orders can come up, what is the bidding pipeline, which you have to make it in the coming next one or two quarters?
- T. V. Chowdary:** Bidding for industrial explosives is different, you know that, that is going wherever bidding, but we have a line that yes we do not go below this line just for the accepting, so that is



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helping us in maintaining our position and when it comes to defence, defence is these are all by limited tenders.

Nitin Gandhi: Is there any tenders likely to open up in the next few quarters?

T. V. Chowdary: Yes, there are several tenders where we have participated and they are expected to be opened.

Nitin Gandhi: Can you share some size of it?

T. V. Chowdary: I do not think that is right at the moment because the sizes and all those, they are all, the figures will be given, but that will be executed in how many years and all it depends upon the FIMs issued by them and all those, but as and when they come we are going on sharing with you so they will come very soon.

Nitin Gandhi: Thank you.

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

Milan Shah: What is the potential; we have got orders for these kind of products from Vikram Sarabhai Space Center?

T. V. Chowdary: Potential for the product?

Milan Shah: Yes.

T. V. Chowdary: Yes, there is good potential because they are indicating almost 36 launches per annum in future, which may happen after 4 or 5 years, so they want to defend for the small satellite launches on private industry that is what is, it is open to everybody.

Milan Shah: 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 the management for closing comments.

T. V. Chowdary: Thank you very much for participating and we hope that we could answer in the best possible way to your questions and we hope to continue the good results what we have expected. Thank you.



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Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Premier Explosives Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.