"Premier Explosives Limited
Q2 FY 23 Earnings Conference Call"
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MANAGEMENT: **MR. T. V. CHOWDARY – MANAGING DIRECTOR – PREMIER EXPLOSIVES LIMITED**
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MODERATOR: **MR. VISHAL MEHTA – STELLAR INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to Premier Explosives Limited Q2 and H1 FY23 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 touchstone phone. Please note that this conference is being recorded. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Mehta. Thank you, and over to you, sir.

Vishal Mehta: Thank you. Good afternoon, everyone. I, on behalf of Stellar Investor Relations, welcome you all to Premier Explosives Limited Q2 and H1 FY23 Earnings Conference Call. We shall be sharing the key operating and financial highlights for the quarter and half year-ended September 30, 2022. We have with us today the senior management team of Premier Explosives Limited, Mr. T.V. Chowdary, Managing Director and Mr. Srihari Pakalapati, Chief Financial Officer.

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to the company's financial performance have already been e-mailed to you. Now I invite Mr. Chowdary to share his initial remarks on the company's performance for the quarter.

T. V. Chowdary: Thank you, Vishal. Good afternoon, everyone and thank you for joining the call. We'll begin the call with a key industry update, followed by an update on the company's operational performance during the quarter. On the defense industry like we have been mentioned and like you may also be aware, the Government of India has an ambitious defense production target of USD 25 Billion by 2025. This includes USD 5 Billion from exports by 2025. The government's goal for the India is to become a net exporter of defense equipment. The Government of India has made many changes in recent year, which have had a positive impact and it has risen to become one of the top 25 defense exporters in the world.

India's defense exports reached Rs 80 Billion in the first half of this year and are anticipated to surpass the Rs 130 Billion mark from last year. By the end of 2030, the Government of India will be making defense equipment for itself, as well as for the friendly countries; ***"Make in India, Make for World"***, is the new motto for defense production department. In recent years, the government has taken several steps to increase self-reliance, including increasing foreign direct investment in defense manufacturing, establishing a separate budget for purchasing locally manufactured military hardware and notifying lists of weapon, equipment and subsystems that cannot be imported. Recently, the Defence Minister has released a fresh statement stating that between December 2023 and December 2028, 780 components and subsystems will be subject to phased import ban.

With the latest indigenization push, covering items used in fighter planes, trainer aircraft, helicopter, submarines and tanks, the recent list of import bans consists of import line replacement units, LRUs subsystems components. These contain 2,500 items, which are already indigenized and 458 items which will be indigenized within the given timeline. Contracts going to domestic businesses have increased. Over 10,000 MSMEs have entered defense industry, and there has been growth in employment, R&D, start-ups and the innovation.

And coming to – specifically to the recent updates for missiles, as I have informed all of you about our productionization of missiles developed by DRDO, that is LRSAM, MRSAM, Astra, NGRAM, QRSAM. The productionization efforts are going on and now we have production - the final integrator BDL and in addition to these domestic requirements, now as we have informed you earlier, we have developed rocket motors for export purpose, and those are now accepted by the customer and they are getting converted. Some almost four of them were converted into production offsets. So, this is going to keep us busy for the coming three years.

Now coming to the industrial explosives segment, from the start of the current fiscal, team has been improving on the raw material pricing price. The raw material prices, which have spread offset up to almost 200% in the last one year is now stabilizing and also this applies for the coal sector, pricing of the supply to coal sector policy and all those have changed and that has brought a little relief to the industry. In terms of demand outlook, India is rapidly industrializing, requires high power supplies and raw materials which has increased the country's coal mining and coiling activities. This signifies that India's demand for industrial explosives is growing rapidly, particularly in the mining industry. There are products like coal, limestone, iron ore and stone aggregate from quarries were produced. There is a significant supply-demand gap, which needs to be narrowed down in near future.

By the FY 23 - 24, the Ministry of Coal forecasted domestic coal production will increase to 1.2 Billion Metric Tons. In FY23, the demand for cement is predicted to increase by 7% - 8% to 382 Million Metric Tons, thus there is a definitive opportunity to increase the use of industrial explosives in the mining and related industries.

Now coming to our company's performance, we continue to move on our growth track. During the quarter, we have generated healthy cash profit of RS 5.94 Crores, with our execution run rate improving and given the nature of our cost structure, the operating leverage of our business will help us to generate better cash flows, which will be utilized towards strengthening our balance sheet. The changing business mix with the increasing contribution of defense segments will augur well for our overall margins.

On the order intake front, there has been good progress. Let me take you through the new orders, order update issued during the quarter.

- The company has recently signed an MoU with Hindustan Aeronautics Limited in the field of manufacturing, assembly and testing, storage, and transportation of explosives for bombs and missiles.
- Received new orders from Israel Aerospace Industries Limited for manufacturing and supply of warheads with total value of **USD 537,500 (Rs 4.3 Crores)** and expect to be delivered by May 2023.

- Production and supply of booster rocket motors for a total value of **USD 6,88,000 (Rs 5.5 Crores)** and expected deliveries by March 2023.
- The company also received an advanced amount of **USD 2.44 Million (Rs 19.4 Crores)** towards the development of production lines and procurement of raw materials for the order received from the Overseas Entity for supply of rocket motors.

Recently our company has dispatched another PSOM-XL motor to SDSC/SHAR and has become the first privately owned enterprise, a non-ISRO unit, to have been successfully qualified for complete insulation lining and propellant processing of PSOM-XL motors to be used aboard a PSLV launch vehicle. Premier Explosives Limited has produced the first-ever PSOM-XL at a non-ISRO facility intended for flight use on PSLV-C5X. These are some of our notable updates from quarterly orders.

We are extremely pleased to report that our current outstanding order book as on September 30, 2022, stood at approximately Rs 601 Crores, which translates into 3.0 times of our FY22 revenue. The dispatches for chaff and flares were as per our expectations.

Regarding other rocket motor feature in the development phase, that is Pralay and Brahmos. As we reported in the last quarter, we have already reached the completion of TOT stage and we are waiting for the FIMs to be issued by the customer to take it up to production levels and we are expecting this to happen before the end of this financial year. And MRSAM, we have already received orders against the requirement of Army and Navy. Now the order for requirement of Indian Air Force is in pipeline and we are hoping that that will come to us before the end of this financial year. Total number of all these things are going to really give our Katepally and then Peddakandukur units both of them fully busy with supplies till the end of coming two financial years.

Now I request our CFO to share the financial performance. Thank you.

Srihari Pakalapati: Thank you, sir. Good afternoon, everyone. The result presentation for the quarter has been uploaded on the stock exchanges and on the company's website. I believe you all may have gone through the same. Now I would present the financial results for the quarter and half year ending September 30, 2022. The revenue from operations for Q2 FY23 stands at Rs 60.6 Crores as compared to Rs 55.1 Crores in the corresponding period last year, with a 10% growth year-on-year. Our operating profit for Q2 FY23 stands at Rs 7.2 Crores as of compared to Rs 6.9 Crores in the corresponding period last year. The operating margin for the quarter stand at 12%. In Q2 FY23 we reported a net profit of Rs 2.5 Crores as compared to Rs 2.6 Crores for corresponding period last year.

The revenue from the operations for H1 FY23 stands at Rs 112 Crores as compared to Rs 88 Crores in the corresponding period last year, which is translating into 28% year on year growth. Operating profit for H1 FY23 stands at Rs 13 Crores as compared to Rs 12.9 Crores in the corresponding period last year, which shows a flattish growth. The operating margin of 12% in

H1 FY 23. Net profit in H1 FY23 stood at Rs 3.8 Crores compared to Rs 3.8 Crores for corresponding period last year.

Now coming to the order book. The company's current total order book stands at Rs 601 Crores, out of which explosive business comprises around Rs 132 Crores. The higher margin defense segment is at Rs 333 Crores, which is around 55% of our total order book and the service segment that is operations and maintenance is around Rs 137 Crores. This order book represents strong growth over the previous years. We are confident that with our continued execution run rate, our forthcoming quarters will continue the growth trajectory that we have seen in the past few quarters.

With this, we now open the floor for questions-and-answers. Thank you.

Moderator: The first question is from the line of Darshil Pandya from Finterest Capital. Kindly proceed.

Darshil Pandya: I just wanted to get an idea about greenfield expansions you have done. So, we have achieved this is the license right, from the Chief Controller of Explosives.

Srihari Pakalapati: Okay. Please go ahead, sir.

Darshil Pandya: Yes. I will rephrase it. So we have received this license from the Chief Controller of Explosives. So, when do we expect these orders to start?

T. V. Chowdary: See, the new unit Katepally unit, mainly the licenses are for assembled rocket motors for which we already received orders and we started supplies. We have licenses for high explosives, that is RDX and HMX and their compounds. We have already started and producing and we have a license for bombs and warheads, which we already started producing. We have license for producing mines, we have started producing. We have license for producing ammunition, part which is under development with our DCPP mode at the ARD, once that is complete, we will get into production mode. The point is utilization of the facility. We just started, so the utilization will be at a lower level. And we expect to go to at least 70% to 80% utilization by year ending 2024.

Darshil Pandya: And sir, one of the questions, you said about the cement industry and the coal industry is going up in the good numbers and also the defense, there is a good air about defense in the defense sector precisely performing well. So where do you see these numbers going up? And do you see any margin efficiency on this part?

Srihari Pakalapati: Margin deficiency? Sorry, I did not get it, margin efficiency or deficiency?

Darshil Pandya: No, efficiency, sir.

T. V. Chowdary: Yes. We definitely see, as we explained and as I have mentioned in my thing, last year, there was a steep increase in the raw materials because of which the mining sector really, we could not in fact, it has pulled us down. But now, that part is over now because of the demand supply gap, the Coal India and Singareni, they have revised the pricing policy. And with this now imports not having any restrictions, now the total raw material costs are coming down and then they are comparable with the selling prices. So that should bring the change.

Darshil Pandya: And as you see this raw material prices sustaining for next few quarters? Or what -- how do you see that?

T. V. Chowdary: Yes. Currently, it appears that they are going to sustain because the major Indian suppliers are public sector. So yes, so the government policy definitely also affects them. So we hope that this present trend which has come after the experience of steep increase will continue, which will yield better results.

Darshil Pandya: And the very last question. The guidance on H2, sir, is it same or what do you expect for the next half?

Srihari Pakalapati: We expect much better from now.

Operator: The next question is from the line of Abhishek Poddar from HDFC. Kindly proceed.

Abhishek Poddar: Sir, regarding the explosives, if you look at 1H '22 versus 1H '23, the revenues have gone up from Rs 30 Crores to Rs 46 Crores. Sir if you could give us some understanding that how much of that is price-driven and how much is volume-driven?

Srihari Pakalapati: No, actually, yes -- so one of the – detonators division, yes, there has been some price hikes. But in other divisions, of course, the growth has come only from the -- with the volumes. We can say about 50% came from the price hikes and 50% came from the volumes hike broadly.

Abhishek Poddar: For the overall, including detonators, sir?

Srihari Pakalapati: Yes, sir. Including detonators, it comes under the explosives division.

Abhishek Poddar: And sir, like we have seen in terms of raw material, ammonium nitrate prices seeing a correction in last quarter. So how should we think about the revenues from here and margins from here for the explosive segment?

Srihari Pakalapati: I don't know. Actually, there was -- actually, the prices have gone up by 200%, 250% over a period last 9 months before that. But now we just corrected hardly by 10%. And now again, it is coming back. But actually, what happened now because of the revised terms with the, I mean, Coal India and Singareni, we are able to absorb the prices basically.

T. V. Chowdary: In older days, that is 1 year back, the pricing, that is the price escalation clause was being affected once in three months which as I said yes, the price increases, which happened today, we were able to get the impact of that after three months, whereas in this three month period, further increase has taken place. So now that pricing policy has been corrected and changed. And now the frequency of correction has increased. So at the same time even the markets also stabilized and then prices have come down compared to that. So that is what really support us.

Abhishek Poddar: Okay. So now the lag impact passing on the prices will not be there or will there be a 1 quarter lag, sir?

T. V. Chowdary: No. It will be 1 month only, the lag.

Abhishek Poddar: Only 1 month. Sir, like on the converse, if the prices of ammonia nitrate fall further from here, would you benefit on the margin side, is that the way to think?

Srihari Pakalapati: With the new, I mean, price fixing – with the Coal India and Singareni. So at least most of the thing will be -- I mean, whether it increases or decreases, most of the thing will be adjusted against the price. But at the same time, we'll be left with -- I mean, whatever is the margin, which we have done at the time of the tender.

Abhishek Poddar: So even if the price is correct, let's say, by 20% hypothetically, next month only your prices will be adjusted. So then margin you will not be able to keep a higher margin?

Srihari Pakalapati: Maybe at least 50% will be adjusted, at a minimum.

Abhishek Poddar: On the defense side, so there's an interesting slide where you've given the opportunities for Akash and MRSAM, Agni, BrahMos and where you have also mentioned the PS contribution. Sir, if you can give us some understanding that, let's say for Akash, there is a possibility of two regiments getting ordered. What will be our share in that and who is the competition for us?

T. V. Chowdary: In Akash, we are providing all energetic components in it, that is booster propellant, sustainer propellant and the initiators. So if you look at the supplies made up till now for Akash, whatever bulk supplies made, almost 75% of the requirement has been met with PEL supplies. Now in terms of finance and the money, I won't be able to say that how much percentage and all those. But in terms of the total volume, 75% of them are met from Premier's supplies only.

Abhishek Poddar: Sir, the reason I was asking, for example, for 1 Akash, the order value, which, let's say, Bharat Dynamics receives, could be Rs 500 – Rs 1,000 Crores, how much percentage, sir, would be our share in that?

T. V. Chowdary: No, our percentage will be much lower than those cores are there, actually.

Abhishek Poddar: Yes. So like, would it be like Rs 30 Crores, Rs 40 Crores or how should we think? Some understanding if you can give, sir?

T. V. Chowdary: I don't know how to answer that question because...

Abhishek Poddar: Understood. Sir, not an issue. So sir, the other way to -- on Slide 21, you have six missiles mentioned there. What could be the opportunity size for us overall and how should we think about the defense order book for the next one, two years?

T. V. Chowdary: Exclusively for these missiles developed by DRDO, at least we expect some Rs 100 Crores of turnover coming from these missiles, all these put together.

Abhishek Poddar: And that will be annual, sir, or that's for the entire program?

T. V. Chowdary: Annual, annual.

Srihari Pakalapati: Otherwise, financial year you can take.

Abhishek Poddar: And that currently is less than Rs 100 Crores, that's already there in the order book?

Srihari Pakalapati: Yes.

Abhishek Poddar: Right. And sir, this defense order book of Rs 330 Crores, how do you see that moving in a year's time and two years' time?

T. V. Chowdary: Yes. Many of the IPs are technology transfers, which have taken, which are intangible assets. Now they are all getting converted into products and orders and supplies. We expect a real good boost because one more area, which I've mentioned in my earlier question's answer, that is mines, which we already started producing, we qualified and the production has started now. And main production will come from the second half of the current year. And also it will go to next year. Similarly, the countermeasures, which are -- again, Premier is the sole supplier from the country. That orders also we are expecting a big jump in that requirement for emergency procurement and various other things. So, by putting all this together, yes, it looks quite bright.

Abhishek Poddar: And sir, just the last question. From the MoU with HAL, what could be the revenue stream from that, sir?

T. V. Chowdary: Yes. This is the beginning. We have signed an MoU to co-operate with them and then work together because as you know what is HAL's strength and our strength is providing them the energetic components and materials for all those things. So it's just beginning. It's too early to, premature to assess.

Moderator: The next question is from the line of Nachiket Gandhi from Gandhi Securities.

Nachiket Gandhi: With such a strong order book, sir, if you can give a timeline on whether we are capable enough and when can we reach revenues of Rs 500 Crores, Rs 600 Crores annually with EBITDA improving around 15% to 18% and through which projects, if you can just brief about the timeline going forward?

T. V. Chowdary: Our estimated time for achieving this is by year 2025, we expect to reach Rs 500 Crores turnover.

Nachiket Gandhi: And sir, through which projects? If you can weight the projects?

T. V. Chowdary: The contribution mainly comes from the exports and mines and warheads and countermeasures.

Nachiket Gandhi: Sir, about the Pinaka Mark II, we have been hearing names of L&T and Tata, but where are we on that because report also said production under TOT, Pinaka Mark I, II. Mark I, yes. But where are we placed on Mark II?

T. V. Chowdary: In Pinaka, we are only in the propellent casting, not in the entire rocket motor fabrication. So we are qualified, and TOTs are completed long back with HMRL, for Pinaka standard, that is Mark I, and also Pinaka Mark II. Now it is a question of the other bigger players who are taking the entire program; Pinaka launches and all those. Now we have to tie up with them. So various MoUs and ties are going on with different organizations. Pinaka also can be one of them.

Nachiket Gandhi: No, sir. But where are we currently on that?

T. V. Chowdary: We are not directly into Pinaka supplies to MoD because we are not making the hardware and all those. We can be only the sub-vendor to the end supplies.

Moderator: The next question is from the line of Prabir Adhikary from Ratnabali.

Prabir Adhikary: I have two, three questions. So like in, recently, we have done some MoU with HAL and sir I want to know like, do we have any plans for missile integration? We so far are a component supplier to BDL, so do we have any plans in future?

T. V. Chowdary: Yes, we have. We already have the license for integration rocket motor as well as for missile integration. So what coming here is because total missile integration involves a lot of communications and avionics and various other electronic components and onboard computer system, CCaaS. Our facility, we can take up the integration, but that input has to come from the expertise of the other partner. So, we already have multiple MoUs signed with all the big partners who are doing it. And we are ready and we have plans for doing that for others.

Prabir Adhikary: Sir, why I am asking this question because there is a company called Economic Explosives Limited, it's a 100% subsidy of Solar, which is also in a similar line of business like you, they have already submitted their proposals for Pinaka MBRL, extended version as well as the other missiles similar to BrahMos and a lot of other things. They are also into chaffs payload also. So as they are similar line of business like you and they are doing these kinds of activities, so where are we now? This is the number one question. Second is, how do we see EEL as a competitor going forward?

T. V. Chowdary: See, in the missile integration area, I don't think we are competing with EEL because they have different plans. They want to make the full missile and supply to the MoD probably, from what we hear from the news, that is what it's understood. But in our case, our strength is to handle the energetic materials, high explosives handling and integration and assembly. So, we want to stick to our core strength and participate along with other participants who have the strength in electronics and communications and hardware, other areas. And then together, we want to participate, that is our strategy. And yes, it's not one partner, we have multiple partners already in that line.

Prabir Adhikary: So my next question is related to space, where ISRO is providing assistance to private companies so that they can also make launch vehicles. And we are one of the suppliers of strap-on motors to these launch vehicles. So, we have association with companies like Skyroot Aerospace, Pixxel, AgniKul, who are on the verge of making launch vehicles.

T. V. Chowdary: Yes. See, these are two different things. One is the new start-ups; they are coming up with their own proposals and designs. Yes, we are working already with them. Apart from that, the second one is the PSOM-XL, the PSLV itself is going to be privatized, where we have successfully supplied and qualified as a vendor for strap-on motors. There also we have participated with multiple participants in the tender as a partner with them because we are the only qualified vendor up till now who have supplied and then successfully proven the PSOM. So we already have tied up with them and it is in the process of finalizing. So, I think it is better to announce when it is through rather than at this stage.

Prabir Adhikary: Sir, in order inflow guidance, overall order inflow guidance in next two, three years down the line, any large ticket order you foresee that you can share with us, please?

T. V. Chowdary: See all of these are large ticket only, LRSAM, MRSAM and all this. Large ticket in the sense, it will not go into thousands of Crores. But yes, it will remain in multiples of Rs 10 Crores or Rs 100 Crores range all these MRSAM, QRSAM, all these production as Astra, all these what we are going to do along with BDL. BDL as the prime supplier and we will be providing the propellent and all those. So along with this we will be also -- this chaffs and flares, because I don't know, you said that the others are making, but no, they are yet to prove and supply. For the past three years, we are the sole suppliers to MoD, the countermeasures, chaffs and flares and all those and we are expecting a big jump in that business in the coming two, three years.

Prabir Adhikary: Can you please quantify the order inflow total, like it would be a Rs 400 Crores, Rs 500 Crores, whatever in the next two years?

T. V. Chowdary: I have indicated our total turnover is Rs 500 Crores in the next two years. So it is not that one volume, one order is going to be that. All this put together will be of that volume.

Prabir Adhikary: And sir, in this Rs 500 Crores, you said that one of the contributions would be from exports. Sir, the export margin – what would be the export margin in that, in defense?

T. V. Chowdary: What margin, you mean the profit margin?

Prabir Adhikary: Not profit margin. I'm saying about gross margin for exports.

Srihari Pakalapati: It varies, depends on the product because it's not a uniform margin for everywhere.

T. V. Chowdary: With the current orders in hand, I think the next financial year, at least Rs 100 Crores should come from the exports of rockets, not other items.

Moderator: The next question is from the line of Devang Shah from Invest Savvy.

Devang Shah: Sir, my question is the company, the way you are perceiving the sector growth, as far as defense sector outlook is concerned that you have just highlighted at the beginning. Sir, as far as Premier Explosives concerned, do you capture that particular opportunity? Do you have any plan about any kind of strategic tie-up, any kind of the way you did an MoU with HAL right now, so you can leverage your product portfolio and that transmit into a sharp surge in revenue growth? So can you throw some more light how inorganic way also you want to make yourselves to expand your revenue because your margin looks like in the range of whatever it is, but if you want to expand your EBITDA by expanding your revenue growth, do you have any plan of inorganic growth and how you want to capture the entire -- this benefit that are going to be there as far as your defense sector is concerned.

T. V. Chowdary: Yes. Like I have indicated in my previous this answer, the growth mainly comes from our contribution towards the energetic components of all the big systems. So against that like HAL, of course, the HAL MoU was announced by HAL in the Defence Expo. But other than that, we have multiple MoUs signed with all major industrial houses in the country and they are all at the stage of RFPs where we have participated. We did an MoU with them as a provider of explosives and other components. And also some of them are DCPP programs. It is co-development and production along with DRDO and the major prime partner and us. So all these together, we are expecting a large growth. Now at this stage, quantifying that may be difficult. But yes, time to time we'll be announcing them...

Devang Shah: Yes, agreed. But my only -- I have a doubt because the way we are anticipating the sector growth, I just want to get an idea that how Premier Explosives want to capture opportunity as far as revenue is concerned just because you are having a very wide portfolio of your products are concerned. So that can be transmitted into a good revenue growth, then it would be a phenomenon for the company. So I just want to get an idea, any outlook that you want to capture, then it would be really a benefit for the company?

T. V. Chowdary: Like I have mentioned to you, many several products, we are the single vendor, qualified vendor. That's the answer to your question, where we are and all those.

Srihari Pakalapati: At this moment, we are not looking for any inorganic growth. We are just going ahead with our only products.

Moderator: The next question is from the line of Darshil Pandya from Finterest Capital.

Darshil Pandya: I just had just one question. Sir, the order book is around Rs 601 Crores, okay. So what is the usual execution period for this order book, if you can give me an idea?

Srihari Pakalapati: Basically, it varies between 18 months to 24 months, on average.

Darshil Pandya: 18 to 24 months?

T. V. Chowdary: Yes. That is for the products that we are producing and then the other one that is operation and maintenance contract, which has got a period of another 6.5 years.

Darshil Pandya: 6.5 years.

Srihari Pakalapati: O&M contract.

Darshil Pandya: And sir, one last question. What is the total Capex that we have done overall for this? What is the total amount that we have invested for this capacity expansion?

Srihari Pakalapati: About Rs 60 Crores. That doesn't include the land as well, only machinery.

Darshil Pandya: Yes, only machinery, Rs 60 Crores.

Moderator: The next question is from the line of Raghav Rathi, an individual investor.

Raghav Rathi: Sir, my first question is just around the stagnant gross margins or the margins that we have reported. Any visibility on how much can we go up from here, say, by 2024, from the current levels, around EBITDA?

Srihari Pakalapati: Sir, historically, we reached about 18%- 20% in some of the previous years. I think we have been maintaining 12% for the last few quarters, and this will be improved in coming days.

Raghav Rathi: So we can expect it to go back to, say, somewhere around 17% to 18% level?

T. V. Chowdary: Yes, something like that.

Raghav Rathi: Sir, my next question is just around the export potential of some of our head products like, say, the chaffs and flares. So any proactive steps that we are taking to, say, find international markets for this almost commodity-like product in our industry, where we can probably outplay our competitors on price as well as quality. Any proactive steps there?

T. V. Chowdary: Yes, the discussions are going on about the participation in the international markets, along with other OEMs from international level. I think we will come through those very soon.

Moderator: The next question is from the line of Aditi Kasbekar, an individual investor.

Aditi Kasbekar: Sir, this might be a little bit of a preliminary question given that I'm a little new to this. But sir, your order book last quarter, you said that it was about Rs 646 Crores. This quarter, we are saying it's about Rs 601 Crores. So my question it is on account of the execution done during the quarter? And if yes, then how do we sort of keep receiving these orders? So generally, do bulk of our orders come in the fourth quarter or how does that receipt of the order book sort of move? I'm asking this since the order book absolute number has gone down from what was reported last quarter to the current quarter?

Srihari Pakalapati: No because there was an execution during the current quarter. So we have declared -- I mean we have shown the revenue of about Rs 61 Crores during the current quarter. So most of the execution has happened from the old orders, existing orders before the quarter, I mean, as on 1st July. At the same time, we have received some of the new orders which have been added. So actually there is difference of about Rs 40 Crores. So we can say the net of the execution on additional orders.

Aditi Kasbekar: Got it. And then do we receive like -- generally, how do you see the trend? Do majority of the orders come in the fourth quarter or do they uniformly come through the year? Or is there -- I mean, is there any sort of seasonality to this is what I'm trying to understand.

T. V. Chowdary: See, we have two divisions. That is one is industrial explosives and other is defense. Industrial explosives, the orders are placed periodically, that is once in 2 years or 3 years. The tenders -- fresh tenders are called and the prices are finalized and all those. So for the coming two years, the order quantity will keep on depleting only. It will not add up. So and coming – similarly the O&M contracts. They are also long-term contracts. So only just before six months of the next contract, the current contract getting executed, the new one we will start talking about. Whereas in defense, it has nothing like that no seasonality. It is as per the requirement time to time, the RFPs come out and after participation in the RFPs, it takes -- the order placement itself it takes many times from six months to one year. And after that, yes, execution. There will be a gestation period of three to four months, getting ready with all those things and then start producing. Now in some of the products, that gestation period also took the first half year of that. Mines and others are in hand and getting ready with all the systems and approval from the customer and all those.

Aditi Kasbekar: So basically, then if we see our industrial order book today, which is about Rs 130 Crores – Rs 132 Crores to be precise, what you are saying is that that over the next 2 years will sort of deplete as we execute more of this. The O&M order book of about Rs 138-odd Crores, that again is going to be phased out over a period of five years, is it? That's what you said?

T. V. Chowdary: Current order, I told you 6.5 years it is. So just one year before the completion of that order, they will talk. In fact, the last order was for 10 years, they could not finalize that, so they extended this by one more year. So it was -- we did it for 11 years.

Aditi Kasbekar: So this Rs 138 Crores then is to be executed over what, the next 6.5 years?

T. V. Chowdary: Yes.

Aditi Kasbekar: So this is a recently received one, which we will execute over the next 6.5 years.

T. V. Chowdary: This was received in the year 2019.

Aditi Kasbekar: 2019, which means 3 years have already passed. So another 3.5 years then?

Srihari Pakalapati: Total contract is for 10 years.

T. V. Chowdary: Total is for 10 years. Out of that, 3.5 years completed. So there's 6.5 years left.

Aditi Kasbekar: Total is for 10 years. Okay. Understood. Very clear. And then defense Rs 330 Crores of order book, that you're suggesting will be sort of -- I mean, they keep coming depending on the RFP and keep getting executed. So for that, you're saying, generally the execution is 18 to 24 months?

Srihari Pakalapati: Yes, exactly.

T. V. Chowdary: Yes. And another thing I want to add is this. There are in O&M contracts and also this Coal India and Singareni contract, there is a price escalation clause. So there also, based on the prices going up, the order value also will keep on going up.

Moderator: The next question is from the line of Raghav Rathi, an individual investor.

Raghav Rathi: So my question is just around the headroom that we have as a company in the coming 2 or 3 years. Given that you mentioned the current order book that we have would suffice over the next 2 to 3 years keeping us busy, both our plants. And you also mentioned that there is not going to be any inorganic acquisitions that we are looking at currently. Do you, as leadership, feel that the headroom is only so much limited or do you think there could be some other aspects where we can probably look at a year down the line and see more revenue coming in?

T. V. Chowdary: Like this what's in hand they are going to be executed in the coming 2 - 2.5 years, I told. In addition to that, there are other things which are in pipeline, which are going on, which will keep on adding up them. So this will continue. There is enough headroom, what you have indicated.

Raghav Rathi: So sir, could you just give us a sense of the capacity utilization? I know you have mentioned it in the past that it's quite difficult given the product mix to ascertain that. But even a range or some idea about in terms of internally, if you're not looking at other acquisitions, internally how much capacity do we have as an organization right now?

T. V. Chowdary: See, I think between our -- now you know that we have two propellant plants, PDK and Katepally, both facilities. Between both the facilities, I think we'll be able to do at least some 200 numbers of rocket motors per month. And this is -- like I mentioned, I think we'll be reaching that 80% capacity level, 70% to 80% capacity level by end of next financial year.

Raghav Rathi: And then maybe we would probably look at explore options of, say, capacity expansion and organic growth?

T. V. Chowdary: Yes.

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

T. V. Chowdary: Thank you very much for your -- I mean very, very informative questions, I call, because some of the persons have even made us think further and other plans and all those. Thank you very much all of you.

Moderator: Thank you. On behalf of Premier Explosives Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.