

Premier Explosives Ltd
Q2 FY18
Earnings Conference Call
November 30, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Premier Explosives Limited Q2 FY17 Earnings Conference Call hosted by S-Ancial Global Solutions. 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Rajagopalan. Thank you and over to you sir.

Rahul Rajagopalan: Good afternoon friends. I on behalf of S-Ancial Global Solutions welcome you all to Premier Explosives Limited second quarter earnings conference call. From the management team we have with us Dr. A N Gupta – Chairman & Managing Director, Mr. T V Chowdhary – Deputy Managing Director and Mr. C Subbarao who is the CFO. May I request Dr. A N Gupta to take us through his initial remarks subsequent to which we can open the floor for Q&A session. Over to you sir, thank you

Dr. A N Gupta: Thank you very much Rahul. First of all, I along with whole Premier family would like to welcome all of you i.e. investors and partners to this conference call for the quarter ending 30th September, 2017. It is my great pleasure and honor to be able to host this call and update the important milestones we have achieved this year. I believe we have sent our results. You have seen our results in the presentation that have been circulated and uploaded in the exchange. I would now present the results of the quarter ended 30th September, 2017. Operating revenue is Rs. 58.23 crores in Q2 FY18 as against Rs. 54.72 crores in the previous year. A growth of 6.4% for operating profit for 2018 has been at Rs. 5.13 crores as against Rs. 5.12 crores. Profit before taxes stood at Rs. 3.35 crores as compared to Rs. 3.66 crores. Profit after tax is Rs. 2.31 crores as compared to Rs. 2.52 crores in the previous year. Moving to the results – for the half year ended September 30, 2017 operating revenue is Rs. 115.13 crores as against Rs. 101 crores, a growth of 13%. Our operating profit for this half year has been at Rs. 10.34 crores as against Rs. 9.53 crores in previous year, a growth of 8.5%. Profit before taxes stood at Rs. 6.93 crores as compared to Rs. 6.43 crores previous year, a growth of 7.8%. Profit after tax for this half year is Rs. 4.68 crores as compared to Rs. 4.48 crores in the previous year, a growth of 4.5%. A total order book because that is the question being asked every time so I have included in my talk is that it stands at Rs. 356 crores. Commercial

explosive business is at Rs. 216 crores. Defense business is about Rs. 142 crores including the service business of Rs. 31 crores. With this we now open the floor for question and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Y Santosh from India Nivesh Securities. Please go ahead.

Y Santosh: I have three questions. Does the 2160 million of order inflows include the one the Coal India order that we received? Second thing, what is the reason for increasing the inventories and receivables and thirdly despite higher contribution from defense segment we see that the raw material costs have gone up. So, is it that we did some trial runs for the ISRO contract which led to this jump in the raw material cost?

Dr. A N Gupta: See your first question is that whether it includes Coal India order, yes it includes. Second question is our raw material cost is higher. This is because of the fact that raw material consumption remains same but the prices have increased by more than 10% in certain cases, while the price has reduced by 10% by Coal India Limited and that is the reason for that. It is not because of the trial run. Because the plant which is in expansion in the first phase is yet in construction mode.

Y Santosh: Reason for increase in the inventories and receivables?

Dr. A N Gupta: Yeah, receivables are increased because of the reasons which you know. One was demonetization, number 2 was introduction of GST. What has happened is when the excise duty was there it was something like 13.36% excise duty and 14.5% of the sales tax. The total came to around something around 28%. And now the GST is 18%. So during the transaction period from the old system to the new system nobody paid the bills. They thought that when the duty comes down they will make the advanced payments and all that. Because of that the receivables increased.

Y Santosh: Lastly sir one small question on the order inflows front. When do we see the orders coming for the remaining half of the year from the defense clients?

Dr. A N Gupta: Basically, the first half of the year is about 40% of the total. So, if you take that 40% basis we have committed that this year we will have 25% over previous year and we will certainly achieve something between 270 and 300.

Y Santosh: Sir I was asking more on the order inflows, not on the revenue booking.

Dr. A N Gupta: See in defense we get the orders basically from BDL which is coming and we have completed Akash Booster and sustainer order is going on. And we are expecting order from other

customers. I cannot take the names of them because of our competitors would be also trying to get that. So I cannot tell you the names of the customers.

- Y Santosh:** Is it possible to quantify how much we expect of order inflows for the year for full FY18?
- Dr. A N Gupta:** We will complete our order quantity, our targeted quantity of Rs. 270 crores. I cannot tell you what will be the quantity, quantum or orders which will flow in during the rest of the year.
- Moderator:** We will take the next question from the line of Sabyasachi Mukherjee from India Nivesh Securities. Please go ahead.
- Sabyasachi Mukherjee:** So, the CIL order, Coal India order was reported in Q3, if I am not wrong in November somewhere in the first week. And order book is stated as of 30th September, 2017 so I was thinking whether how do you report the Q2 numbers?
- Dr. A N Gupta:** See if it is a three-year order divide it by three then add to the order book. If it is 2 years, order divide by 2 and then head to the order book.
- C. Subba Rao:** Actually, this Coal India tender we submitted our quotations and at the time of submission we know who is L1 and how much we can get. Actually, **the order came** later from the Coal India but we know about it before September – that is why we have included that in order book in that.
- Moderator:** We will take the next question from the line of Jaspreet Vaidya from NCR Finance. Please go ahead.
- Jaspreet Vaidya:** Could you talk a little bit about the status of LRSAM, MRSAM and extra programs as far as the government side of the things is concerned. We read in the newspaper recently that Mr. Arun Jaitley inaugurated a facility of BDL which is supposed to manufacture Astra and LRSAM and MRSAM missiles. So, does it remove the bottlenecks for commercialization of these three missiles going forward?
- Dr. A N Gupta:** See Mr. Jaitley has inaugurated a plant of BDL, that is for integration, not for production. The production will still come to private industry and we are very much in line with LRSAM, MRSAM because our composition has been approved for that and also Astra. That is also our composition. So, we are expecting order but we have not taken till the order comes to hand, not taking any in the order book.
- Sabyasachi Mukherjee:** Sir since the plant was inaugurated already, do you expect the orders for these products to materialize by the end of this year?
- Dr. A N Gupta:** Certainly, MRSAM we are expecting an order which we have been told that it has been finalized. But as soon as the order comes we will put it on the site.

Moderator: The next question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.

Ketan Gandhi: Sir there was a newspaper article regarding the phase that DRDO is developing solid propellant for Brahmos after Russia refused support with help of HEMRL. Are we there?

Dr. A N Gupta: Certainly, we have sent our express of interest a few minutes back. So, when the order comes in we will be certainly part of it.

Ketan Gandhi: So, it is a TOT or it is already a pro-product from our side?

Dr. A N Gupta: From our side it will be TOT but solid propellant is solid propellant. The TOT is only for the composition and all that. So, the composition is developed by HEMRL: and we are applying for the TOT for that.

Dr. A N Gupta: Sir opportunity for this product is large or medium sized?

Ketan Gandhi: See PJ-10 is nothing but Brahmos so you know Brahmos is very successful missile, it is the cruise missile and it has been developed longer than I can remember and probably the productization of this will not be a problem.

Moderator: We will take the next question from the line of Ashish Bagchi, an individual investor. Please go ahead.

Ashish Bagchi: My question is regarding the ammunition, so in your presentation we can see that there is subsidiary Pelnext Defense Systems and there is also a plan for technological tie-up with foreign OEMs. So, as we are building the factory we do not have the technology for preparing the ammunitions right now and we are waiting for the foreign OEM tie-up. Could you please throw some light on that?

Dr. A N Gupta: See as far as we are concerned, we have got the industrial license, also we have got the approval from Chief Controller Explosives, which is very important and normally the production of such buildings takes about one year or so. The work has started, we have already built the tank for the water. We have also got the approach road in place and the boundary wall is being made and we have already given the construction order to a contractor for all the buildings. More details can be given by Mr. T V Chowdhary. He is our Deputy Managing Director and he looks after the technical part.

T V Chowdhary Question what you asked about the technology – see the technology of producing propellants or producing the explosives and all those we already have, so based on it we are building our plants. But when we make a product with a particular OEM they will have their own technical issues so that is where we have to incorporate. So that comes when the OEM we start working. For building the plant and project we have enough technical knowledge.

Ashish Bagchi: But the product is not identified?

Dr. A N Gupta: No, it is identified. The product is identified, and the OEM is also identified. We are in the final process of negotiating the various nitty-gritty.

T V Chowdhary Example you can take is we have propellant plants, we are producing propellants and all those but like every project we are discussing, the Brahmos, LRSAM, MRSAM each project will have its own again special ingredients and special things. So they differ by that. That will keep on changing but basic plant and all those we have and we are building and we are doing.

Ashish Bagchi: So, is it possible to share those things, the OEM names?

Dr. A N Gupta: Not at this time.

Moderator: We will take the next question from the line of Apurva Kulkarni from Nine Rivers Capital. Please go ahead.

Apurva Kulkarni: Sir we saw in our presentation that you have received a letter from the Andhra Pradesh Government offering for an expansion. So, could you just give us a highlight of what would it be for and the possibilities going forward?

Dr. A N Gupta: See this letter of allotment from Andhra Pradesh Government for 220 acres of land to set up the facility of making up to 2-meter diameter propellant for SHAR, i.e. Indian Space Research Organization at SDSC Sriharikota. In those this is called SHAR. We are operating that plant for 11 years now and now they have requirement of what they call this strap-on motor. They placed an order for one number and we have completed and delivered that. On 17th we did the first section. Delivery - that same vehicle will go and deliver that, come back and take the second section and then third section. Each section is about 4.5-meter-long which is almost like with all the protection at both the ends and also the cover and all that comes to a full length of truck. The diameter is 1 meter but 1 meter is the internal diameter. External diameter is about 1.4 to 1.5 meter. So, it is about 34.5 tons of propellant goes in one section. All the three will be making one strap-on motor. So as a trial they gave one order. At the existing plant we made it under their supervision and it has been delivered in this month ceremonially on 17th of last month. Now for meeting their requirements we are making a full-fledged plant next to them, next to SHAR. Because it will be 35 km from them, so whatever we load it will be reaching them within a few hours. Presently it takes about four days because it has to travel very slowly. Now that is the situation and they want something like three motors i.e. 3x3 nine sections every month so it will become a big order. So that plant will busy making that. Apart from that there is an indication that they will be buying some other raw materials like Ammonium Perchlorate and all that. So, we are including that also in the new project.

Apurva Kulkarni: Okay, so what are the size of these orders?

Dr. A N Gupta: Well, we are not able to give you these answers because of commercial reasons. So, we do not want to give you the value of order.

Moderator: The next question is from the line of Y Santosh from India Nivesh Securities. Please go ahead.

Y Santosh: Sir the ATGM tender was called off by MOD a few days back. So, I remember we have done a JV with Bharat Forge, so what would be the outlook of this JV? Still we would have it -

T V Chowdhary You already know it. It is very much on the newspaper to what happened to the Israeli ATGM project. So, from our side we have not made any investment in that direction as Premier Explosives.

Y Santosh: A couple of more questions. What is the status of the ongoing Capex?

Dr. A N Gupta: Ongoing Capex is absolutely online. As I told you initially that we are in the process of building and we are awarded the contract. We have got the approval of chief controller of explosives, which becomes very-very important and all that. And it is online. By the end of the year probably some other buildings will be ready and by the end of financial year if that is ready we will start the production there. So the ongoing project is a very large one. It consists of producing high explosives, it is also producing some warheads, also some mines. So, we have got something like 50 crores.

Y Santosh: Lastly what is the status of the long-term contracts from the ammunition segment? It means it was supposed to – has it moved further for awarding or what is the status of it?

Dr. A N Gupta: I think that RFP we are talking about, 8 RFPs which are floated in month of November, we got a letter yesterday stating that it is again postponed to 10th of December. So it is postponed. It will keep on getting postponed and it is not ethical right now for us to anticipate or say anything about the government policy.

Moderator: We will take the next question from the line of Dikshit Doshi from Whitestone Financial Advisors. Please go ahead.

Dikshit Joshi: Couple of questions – one, anything happening in the MOU we have done with Israel Aerospace and second question was about the chaff and flares. So, I understand that earlier the entire requirement of India in terms of chaffs and flares is imported and is getting substituted by domestic sourcing. So, any more order we expect on that front?

Dr. A N Gupta: Yeah, we expect such an order but the future is future. And it is with a question mark. As far as whatever we have received so far started almost on line. It will be completed next month and our OEM is supposed to come after three or four days time and we will be starting the

second that is flare. In the meantime, we are also thinking of contacting other companies in the world who are making flares and all that because we understand there is a massive requirement of navy and other branches of ordinance for chaffs and flares. So, we are expecting that this will become a permanent sort of a business and we have already got a building which is totally dedicated for this product.

Dikshit Joshi: So, you are targeting the exporting order for chaffs and flares?

Dr. A N Gupta: Not yet, we have not started getting inquiries but the present order itself is so big that we are struggling to get it completed on time.

Dikshit Joshi: And about Israel Aerospace MOU?

Dr. A N Gupta: That MOU is there and it is going on.

Dikshit Joshi: Okay, but anything material happening there?

Dr. A N Gupta: Yeah, there is something but we cannot talk about that until and unless the whole thing comes to a stage that we are able to earn anything from there. If it becomes a business certainly it will be revealed.

Moderator: As there are no further questions I now hand the conference over to the management for their closing comments.

Dr. A N Gupta: If there are no other questions we would like Mr. Rahul Rajagopalan to close the call.

Rahul Rajagopalan: Thank you. On behalf of S-Ancial Global Solutions, I thank Dr. Gupta, Mr. Chowdhary and Mr. Rao and all the participants for joining us on the call today. Thank you and good bye.

Moderator: Thank you. Ladies and gentlemen with that we conclude today's conference call. Thank you for joining us and you may now disconnect your lines. Thank you.