



“Premier Explosives Limited  
Q1 FY2020 Earnings Conference Call”

August 13, 2019



**MANAGEMENT: DR. A.N. GUPTA – CHAIRMAN AND MANAGING DIRECTOR**  
**MR. T.V CHOWDARY – DEPUTY MANAGING DIRECTOR**  
**MR. C. SUBBA RAO – CHIEF FINANCIAL OFFICER**

**ANALYST: MS. HINA AGARWAL- STELLAR INVESTOR RELATIONS**



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**Moderator:** Ladies and gentlemen good day and welcome to the Premier Explosives Limited Q1 FY2020 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. 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 Ms. Hina Agarwal. Thank you and over to you Ma’am!

**Hina Agarwal:** Good morning everyone. I, on behalf of Stellar Investor Relations welcome you all to the Premier Explosives Limited Q1 FY2020 earnings conference call. We will be sharing the key operating and financial highlights for the quarter ended June 30, 2019. We have with us today, the senior management team of Premier Explosives Limited Dr. A.N. Gupta, Chairman and Managing Director, Mr. T.V Chowdary, Deputy Managing Director and Mr. C. Subba Rao, 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 company’s financial performance have already been emailed to you. Now, I invite Dr. A.N. Gupta to share his initial remarks on the Company’s performance for this quarter. Over to you Sir!

**A.N. Gupta:** Thank you. We will start. I would like to congratulate DRDO for the successful flight test in the state of art Quick Reaction Surface to Air Missile QRSAM against the aerial target from integrated test range/ITR. I am honored to share that the solid propellents used in the missile was manufactured and supplied by Premier Explosives Limited. We have in-house developed and produced the solid propellant and are the sole supplier to DRDO for this product.

Defense and aerospace sector has been given high priority under Make in India program in order to reduce the dependency on imports. With the formation of stable and decisive government at the Centre, defense sector is expected to get massive push for the modernization of the armed forces and indigenization of manufacturing of defense product.

To encourage the private sector, companies to participate in the defense opportunities, the government has announced the establishment of two defense industrial corridors in Uttar Pradesh and Tamil Nadu. The government has also announced several initiatives which include simplification of license procedures, export commissions, level playing field vis-à-vis public sector undertakings.

With these broad remarks now I request, Mr. Chowdary and Mr. Subba Rao to give necessary details. Thank you.



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**T.V. Chowdary:** Thank you Sir. Good morning. This is Chowdary from Premier Explosives. I would like to brief you on the business opportunities and then what are ahead of us one by one.

Apart from our existing business which you know very well, the new businesses which are added now, the first and foremost important now is the countermeasures. As we have already announced, we have got our orders worth more than Rs. 100 Crores for Chaffs in place and the production process has already started. This is going to be a very good vertical for the future growth of Premier.

Coming to another important addition to this is MRSAM and LRSAM, where the Premier was the only contributor to the propellant, now it is inducted and the first MRSAM was handed over to Air Force in presence of Defense Minister and it was a feather in our cap that the missile is completely filled with our propellant. We already received the first order from BDL for 150 numbers and for the LRSAM also it is continuing with that and it will catch up with MRSAM.

Next to another order, which was received by us and we are going to execute immediately is PAT/Premier Air Target, which we expected last year, but it got delayed and now we have received it and which is to be executed in this year. Apart from that like we announced earlier, that we have tied up Israel Aerospace Industries for making rocket motors for them and we are happy to inform that we have completed the development part and already started trials in their presence which we have completed and they have cleared. Now we are getting ready for flight trials with them. Once these flight trials are completed, this is going to get converted into production orders.

Brahmos is another missile which everybody is eagerly looking at and Premier has completed the TOT for Brahmos propellant and we have to cast in big motors and this is another thing which is going to happen now very soon.

PSOM-XL which is an ISRO Strap-On motor as you are all aware, we have already made and executed a trial order and supplied and it was static tested successfully by ISRO and now ISRO is giving the bigger trial orders, second for flight trials. The price negotiation is already over. Now we are expecting order any day. This is for another trial quantity of PSOM-XL Strap-On motors.

Now, Pinaka is already inducted by Army. The big Pinaka for private sector RFP has already come and Premier is participating in the RFP and we are waiting for success in this RFP. Nipun a land mine, which is done with a TOT from ARDE we have completed the user trials successfully and the product is found to be compliant to all the performance requirements. Again, this is going to be productionalized, next step is productionalization of this.



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Our HMX/RDX plants they are ready and are in the commissioning stage and once this is through then we will be in the production of HMX/RDX, their compounds, warheads, and all related products.

Coming to the Katepally we are happy to announce that the project is completed and already it is in the inspection process, one level of inspection is over by PESO and they are expected for second inspection for second phase. In the meantime, we are already continuing the dummy trials of the plant and we will be coming into production by September. Once this Katepally is in line then we will be ready with all the facilities which are not available at PDK and it will complete our product bouquet.

One more thing which we wanted to announce is our efforts in participating in RFPs for 40mm and 30mm ammunition have yielded results and the samples for NCNC trials have arrived and once that is through this is another area we are going to enter in a big way.

I think this is about the new things that are happening. Now I request Mr. Subba Rao to take over.

**C. Subba Rao:**

Thank you Sir. Good morning everyone. The result presentation for the quarter has been already uploaded on the stock exchanges and in the company's website. I believe you all have gone through the same. Now I would present the financial results for the quarter ended June 30, 2019.

Total income for the Q1FY20 stands at Rs. 504 million. EBITDA for the quarter was at Rs. 32 million and EBITDA margin is 6.3%.

The company reported profit after tax of about Rs. 9 million in Q1 FY2020.

The company's total order book as on June 30, 2019 stands at Rs. 4,450 million out of which explosives business comprises Rs. 1,250 million, defense segment Rs. 1,487 million and services is Rs. 1,719 million. Capital work-in-progress stood at Rs. 423 million and capital advances at Rs. 50 million, most of this CWIP is towards Katepally Project.

With these words, now the Q&A floor is open. Thank you very much.

**Moderator:**

Thank you. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

**Dixit Doshi:**

Thanks for the opportunity. Mr. Chowdary first question is regarding the chaff and flares of Rs. 100 Crores. Is there any revenue booking done in Q1FY20 or we just started the production?



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- T.V. Chowdary:** We started the production. Revenue booking will come in Q2 most probably.
- Dixit Doshi:** Q2 onwards?
- T.V. Chowdary:** Because once we manufacture there is a process of inspection. We offer for inspection, lot qualification and then only it will come into the value.
- Dixit Doshi:** So, this we have to execute within 168 weeks which you mentioned in the press release, so this will be once you know the inspection and everything is done, this will be spread out equally every quarter or something?
- T.V. Chowdary:** Yes.
- Dixit Doshi:** Secondly, our defense order book is let us say around Rs. 148 Crores out of this Rs. 100 Crores is this chaff and flares, so remaining Rs. 48 Crores of orders what would be the timeline for execution for that?
- T.V. Chowdary:** Most of them there are a period of one and a half years and then many of them will be executing in coming 12 months.
- Dixit Doshi:** So, in that case, do we feel that our defense revenue for this year would be more or less similar to the last year or you expect some more orders within next nine months?
- T.V. Chowdary:** Yes, it will be definitely higher than the last year with all these things added probably you are comparing with last year's projections but if we compare with execution and then final year's what all orders we have in hand we will be definitely exceeding last year's figure.
- Dixit Doshi:** Secondly, any new RFPs we are targeting? You mentioned a few Pinaka RFP, so how much would be the size of this Pinaka RFP, which we would be participating?
- T.V. Chowdary:** It is quite big. It is open to all. It is available everywhere.
- Dixit Doshi:** I will go through it. And secondly, in terms of RDX and HMX plant, it will start in the next few months, so have we received any order for this or the process of marketing for export or even in the Indian Defense Industry will start only after the commercialization?



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**T.V. Chowdary:** We are already holding enquiries with us from various organizations, export as well as domestic including BDL. As soon as the plant is ready we can start working on it. People are waiting for us to do.

**Dixit Doshi:** So, let us say the plant will be starting in next two three months, so we can get some orders for that in this financial year also?

**T.V. Chowdary:** Yes.

**Dixit Doshi:** Yesterday we have received an order of Rs. 13.5 Crores. I assume this is not included in this Rs. 148 Crores order book right?

**Subba Rao:** Not included.

**Dixit Doshi:** Lastly Sir, in terms of our BMCS project where I suppose we have to give sample and then one participant from the two of the shortlisted would be selected for the order. So, where that process is right now and how long you feel it will take?

**T.V. Chowdary:** We have no knowledge. It is with the Ministry of Defense. They are processing.

**Dixit Doshi:** But is it moving now after the elections or it is still slow?

**T.V. Chowdary:** After the elections we have not heard anything. Before that they asked some technical questions, we replied to that.

**Dixit Doshi:** Lastly Sir, in terms of our Explosives Division, our order book is now only Rs 125 Crores. So any new tender from Coal India or any other subsidiaries of Coal India in the next few months or quarters or it will come in next year June quarter only when this order will be about to be completed?

**T.V. Chowdary:** Coal India order is in the process, but whether it is going and the prices are dropping and all those and people quote low but they do not honor and all those, it looks it will be retendered or something is going to happen.

**Dixit Doshi:** That is it from my side.

**Moderator:** Thank you. We have our next question from the line of Nimesh Shah from Shah Investments. Please go ahead.



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- Nimesh Shah:** Thank you Sir for the opportunity. I want the status in our Katepally expansion and the capex that you have incurred till date?
- C. Subba Rao:** If you are asking about the figures, we spent about Rs. 42 Crores so far. So we expect totally it will be around Rs. 50 Crores.
- Nimesh Shah:** Is there any deadline we have kept that it would be commissioned?
- A.N. Gupta:** We wanted to have it yesterday but whatever the license thing and others we have to take care. Explosives although they have to go through the statutory bodies and then they have to clear it. We have already completed and offered for inspection. They have already inspected. So, any day we are expecting the clearance for operation.
- Nimesh Shah:** Sir, I wanted to know what will be our comfortable revenue split between explosive and defense going forward looking at the campaign being taken ahead by the Modi Government in terms of Make in India and all, so how will we see our revenue split going forward?
- C. Subba Rao:** Last year it was 70:30, so of course, we are always trying to get the defense bouquet to be more than commercial, but it is depending upon like you told order flow. From the way it is going up, this year we should exceed last year's amount.
- Nimesh Shah:** Sir, in our Explosive Division, we have been witnessing some decline. So, is this because of the industry scenario or the demand scenario or we are shifting our focus to defense, how is it going?
- A.N. Gupta:** Yes, you are right. It is industry scenario and also the demand.
- Nimesh Shah:** Any revival we are about to witness either from the government side or we are partnering with someone, I mean, targeting any new markets as such?
- T.V. Chowdary:** In terms of Industrial Explosives, no. Only we are looking for export markets and we are servicing the export orders already. We are happy to do that rather than going for domestic.
- Nimesh Shah:** Sir, in terms of our defense and aerospace, where we see our company in the next two years?
- T.V. Chowdary:** With the present indicators and all those, we are aiming somewhere around Rs. 500 Crores turnover in the coming two years subject to market.



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- Nimesh Shah:** That is it from my side. I will get back in the queue.
- Moderator:** Thank you. We have our next question from the line of Santosh Yellapu from IndiaNivesh Securities. Please go ahead.
- Santosh Yellapu:** Thanks for the opportunity. I have three questions. Sir, what is the status of the ongoing capex for the defense phase, first! Second thing, we were expecting some opportunities in the ISRO side, where do we stand on that, two? The third thing, Sir, can you just please give some more colour on the land mines opportunity that you said that we have absorbed the technology from ARDE?
- C. Subba Rao:** Regarding the capex I answered to the earlier question say Rs. 42 Crores we already spent, totally it will come to Rs. 50 Crores. That is about the capex that is going on Katepally. About two product details, Mr. Chowdary will answer.
- T.V. Chowdary:** The second point, you asked is about the ISRO opportunities. Yes, ISRO opportunities are opening up because ISRO as announced they want to commercialize the operations and then involve the private sector. So, as part of that only they placed a trial order on us and we successfully met that requirement and it is going in phases. Now we are in second phase where they place order on flight trials because ISRO is an organization which goes very carefully step by step. They do not rush the things because it is what they deal what is something different. So, we have succeeded in the first step. Now they want us to supply for the flight trials then next step comes is transferring. Like we have announced, we have also got some expression of interest from them that around 24 numbers per annum PSOM-XL they will be taking from us. So these are all the steps towards that. And there are some more RFPs received from ISRO which they are now done earlier, but additional RFPs for O&M contracts and some explosive supplies and all those, so it is opening up. ISRO is opening up. What is the third question please?
- Santosh Yellapu:** Last thing, about the land mine technology transfer that we completed. Can you just give some more colour against whom do we compete in this space and what is the opportunity all about?
- T.V. Chowdary:** I do not think I will be able to give much colour on it, but Indian Army needs it while TOT was going on they were constantly sending the faxes asking us the status of the TOT and all those, which shows that they are interested and they want it to be quickly inducted.
- Santosh Yellapu:** Has any other private player absorbed this technology?
- T.V. Chowdary:** I think yes, because there is a TOT from ARDE so they maybe transferring to others also.



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- Santosh Yellapu:** Lastly, any update on the technology transfer of the cockpit that we had won in trial order for eight sets long time back?
- T.V. Chowdary:** Canopy severance system.
- Santosh Yellapu:** Canopy severance system, yes Sir?
- T.V. Chowdary:** It is going on. It is back on to track and then now TOT is going on for that.
- Santosh Yellapu:** Thank you Sir. That is it.
- Moderator:** Thank you. We have the next question from the line of Nimesh Shah from Shah Investment. Please go ahead.
- Nimesh Shah:** Sir in Q1 FY2020 what will be the margins in Explosive and Defense and Aerospace segment?
- C. Subba Rao:** Whatever is available on a total company level only is available to us also. We can only tell that certainly defense is better than commercial, but we cannot specify the margin at different sectors.
- Nimesh Shah:** Sir, during this quarter our topline has registered a decline of 15% YOY whereas our operating margins have improved by 130-BPS. So, is there any reason for the same or we have changed the product mix and if yes then at what percentage?
- C. Subba Rao:** Basically the decline is mainly on account of lower bulk explosive sales at the Manuguru plant as the current ongoing powder factor is said to be very high during these initial months of the financial year. So we started supplying again from August where the powder factor impact will be less. So that has impacted the turnover and in terms of the margins, yes because the percentage of defense when it is high margins will be better. The percentage of course would be in the commercial explosives also when we import the material more and use that in those quarters it will be better, but when we use more import and all that it is not completely in our hands, it depends on the availability and the shipping schedule.
- Nimesh Shah:** Sir, what is the opportunity side in SRSAM and MRSAM? What can we expect the order inflow from this segment?
- T.V. Chowdary:** We already received the order. All these days we were supplying to DRDO against the development and all those. Now it is converted into production order from BDL what we have announced. So this



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is the first step and as we complete this, the order keeps on growing because last time MRSAM were expected to be felt in a big way and for us the opportunity as on date we are the only manufacturers of propellant and we hold the IP of that.

**Nimesh Shah:** Sir, I will get back in the queue. Thank you so much.

**Moderator:** Thank you. We have the next question from line of Mihir Desai from Desai Investments. Please go ahead.

**Mihir Desai:** Sir, thank you for the opportunity. I just had some questions on the working capital side. I just wanted to know what is the current working capital cycle of the company.

**C. Subba Rao:** Current working capital basically if you take the debtors, normally defense takes longer period but during the last three months or so we have actually collected good amount from long time outstandings. But if you ask the terms of payment, BDL takes about six months time on an average on the defense actually. Sometimes it exceeds, sometimes they will take long time to conduct the test and in the commercial side, Coal India and others normally it is one month the lag but sometimes it can happen quickly also and sometimes it can drag on to 45 days like that. In terms of creditors most of our purchases do not get the credit in the local purchase except say RCF they will give some credit based on the bank guarantee, which we give, most of the other creditors do not give long-term credit.

**Mihir Desai:** Sure. One question on the industry so, actually I am a bit new to the industry just wanted to understand that is there any gaps in the demand and supply in our defense products and if there is a gap then what is the demand that we can expect coming forward?

**C. Subba Rao:** It is a big question to answer. It is very difficult in the sense, we know the Government of India budget as a number but we do not know what are the details whether capex or opex, so it is only we have to see the order flow and plan rather than seeing the demand gap supply, but indications are like say we are importing lot of defense supplies and government wants to do Make in India there, but to put a number it is difficult.

**T.V. Chowdary:** Instead of demand and supply gap it is more like Make in India whatever we can make in India that is the market for us.

**Mihir Desai:** Sir, I think I am done with my question. Thanks for the opportunity.



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**Moderator:** We have a question from Kunal Patil an individual investor. Please go ahead.

**Kunal Patel:** Sir, what is the opportunities for the ammunition business as per exports? Are we targeting any country specific in terms of ammunitions?

**T.V. Chowdary:** Right now, we are targeting our own requirements. Export and all those will come only at the later part. Now it is Make in India against Make in India we are participating in direct space.

**Kunal Patel:** Thank you.

**Moderator:** We have no further questions now. I now hand the conference back to the management for closing comments.

**C. Subba Rao:** Thank you all. We are happy the way you showed the interest in the company we will be keeping informing you whenever new developments come at our hands. Thank you very much.

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