



“Premier Explosives Limited Q1 FY19 Earnings Conference Call”

August 13, 2018



 **S-ANCIAL**



MANAGEMENT: **DR. A. N. GUPTA – CHAIRMAN & MANAGING DIRECTOR – PREMIER EXPLOSIVES LIMITED**
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MODERATORS: **MR. SANIDHYA JAIN – S-ANCIAL GLOBAL SOLUTIONS**



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Moderator: Ladies and gentlemen, good day and welcome to the Premier Explosives Limited Q1 FY19 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Sanidhya Jain from S-Ancial Global Solutions. Thank you and over to you sir.

Sanidhya Jain: Thank you Bikram. Good afternoon everybody. I on behalf of S-Ancial Technologies welcome you all to Premier Explosives Limited Q1 FY19 Earnings Conference Call. From the Management Team we have with us Dr. A.N. Gupta – Chairman & Managing Director and Mr. C. Subba Rao – who is the CFO. May I now request Dr A.N. Gupta to take us through the initial remarks subsequent to which we will open the floor for Q&A session? Over to you Sir!

A.N. Gupta: Thank you Mr. Jain. First of all, I along with the whole Premier family would like to welcome all of you investors and partners to this conference call for the quarter ending 30th June, 2018. It is very great pleasure and honor to be able to host this call and update all our partners of the important milestones we have reached this year. I believe you must have had an opportunity to see our results in the presentation that has been circulated and uploaded in the exchange. I would now present the results briefly for the quarter ended June ‘18.

The total revenue is Rs.59.44 crores as against Rs.56.9 crores that is the increase of 2.5 crores approximately in Q1 FY18. Our operating profit has been at 2.95 crores as against 5.2 crores in the previous year and. Profit before tax stood at 1.29 crores as compared to 3.57 crores in the previous year. Profit after tax is 0.86 crores as compared to 2.36 crores in the previous year. Primary reason for decline is due to interest cost which is higher by Rs. 25 lakhs and about increase in the employee cost which is about 10% to 12% which is because of annual increments and raw material cost which has increased. There has been also Forex loss of 43 lakhs which is due to hardening of dollar and reduction in the value of Indian rupee during the period. Our raw material prices have increased and there had been increase of about 14% in RCF price compared to the previous year. The selling price is reduced by almost 10% compared to the previous year.

Revenue guidance for the current year is that we will be completing the year with Rs. 280 to 300 crores of top-line and bottom-line would depend upon many things. There has also been an impact of change over from the previous accounting system to Indian AS system which is taken into consideration the reduction in value because of debtors which are more than 6 months old. As you know we are in a trade with government concerns even in Defence and the payment doesn't come within one month period which is required which is given in the order.



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It takes 6 to 7 months more than the normal payment period and everything which is sold almost comes in under the system for reduction in value.

With this now I open the floor to question and answers.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. We have first question from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.

Ketan Gandhi: Any update on LRSAM order because I believe government has placed order on BEL to the tune of Rs.9600 crores?

A. N. Gupta: That's very heartening news and we are hoping that the order on us will also be released soon. But there is always a delay between the Government sanctioning order on BEL and BEL placing an order on BDL and finally BDL placing an order on PEL and we are very much in line because LRSAM propellant is our product and our composition and everything has been cleared by them. We are already supplying on the existing order and only the quantity will increase if the BEL places order on BDL.

Ketan Gandhi: Can you throw some light on how much order we can get in this fiscal and next fiscal?

A. N. Gupta: It depends upon so many things and all that. It is not possible for me to right now look into that and then give you what will be the quantity of order.

Moderator: We have a next question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: My first question is on the Industrial Explosives so I guess from last couple of quarters we have been mentioning that the pricing decided every quarter, negotiated every quarter with the Coal India and we were hoping that the prices will improve but this is almost third quarter where the industrial explosive division is not performing. So how do you see that, are we not able to pass on the raw material increase?

A. N. Gupta: The order for Coal India is not on quarterly basis. There is a correction of ammonium nitrate prices which is on the quarterly basis. The Coal India typically gives an order for 2 years or 3 years depending upon whatever is there a policy. Last time they placed an order for 2 years and order again was placed last year again for 2 years time. So I don't think that statement quarterly order is correct because Coal India and similarly Singareni Collieries and I believe place by the 2 years order.

Dixit Doshi: You mean to say that these are the fixed price orders?



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A. N. Gupta: Yes these are the fixed price orders on quarterly basis linked to the price of ammonium nitrate supplied by. Every quarter they take prices of RCF how they are moving up or down and they fix the price for next 3 months.

Dixit Doshi: So you mentioned that the raw material prices are going up so why the selling price is not going up?

A. N. Gupta: That selling price goes up to the extent of that only. But the selling price from 2 years basic price itself has come down by about 10% to 11%.

Dixit Doshi: So just want to get a sense let's say the raw material prices stays where it is right now then rest of this order book of 200 crores is more or less at this margin will be executed at current margins only?

A. N. Gupta: Yeah present order book will be at this price based on 2 years period. Now if Coal India has placed order last year it will be for 2 years. There had been a drop in the Coal India order by about 10% while placing the order. But again after three months there would be correction based on ammonium nitrate prices.

Dixit Doshi: We have given 200 crores order book for explosive division does that include the recent quarter we got of 68 crores?

A. N. Gupta: Yeah it includes.

Dixit Doshi: Now second question is on the Defence side, so is there any update or anything you would like to share about the ammunition order, tender which we have bided for?

A. N. Gupta: Now we have bid and we are waiting for their next action. They have not taken any action after that so we are waiting. Some update on that target marker order for 40 mm which reported long-time back and recently it has been sort of decided that they will go for the user trial and only yesterday or day before yesterday—yesterday was a holiday—we received instruction from them giving the actual user certificate. Now that we can obtain the export license and get some ammunition for user trial and that RFI was almost like more than one year old.

Dixit Doshi: Have for the orders which we have recently bided like in April-May so do you expect something to materialize I mean at least to get whether we have shortlisted or not within this year? And secondly just wanted to understand so you mentioned earlier that there are couple of more competitors in few products, so it will be like they will give the trial orders to everyone and then the Army or Military will decide whom to give the order or they will first finalize the company and then will give the trial order?



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A. N. Gupta:

We quoted for two items, one is the Bi-Modular Charge System and one is 30 mm grenades that is the Russian version of 30 mm ammunition. For 30 mm there were 3 companies which participated in that and for BMCS there were only two companies which participated in that. Now trial will be done with all the three in the 30 mm and all the two in BMCS and those which qualify, if both of them qualify for BMCS and after qualification the quotation the second cover that is price part will be opened and then if we are L1 then the order will be placed on us. If we are not we don't qualify it and they qualify or they don't qualify and we qualify, the various combinations are there based on that they will take the decision. So the process says that first we quote then they give order to all the **participants** if they are technically viable quotations and after that user trials are done, one is by QAs and second is by the user after firing the shots and all that if you qualify, both of them qualify depending upon what's the status after the trial then the commercial bid is opened, on L1 bases the order is placed.

Dixit Doshi:

Do you feel that the trial and the qualification part will take at least 1.5 to 2 years?

A. N. Gupta:

Going by the speed at which they are working now it's very difficult to tell that when they will complete and when they will finalize the order.

Dixit Doshi:

We have done the test trial which was successful for strap-on-motor in January-February and ISRO had a plan to launch missile every month rather than every quarter. So is it that they have delayed because we have not heard anything from that part I mean we have not received any order after that?

A. N. Gupta:

After that the call was taken and then the whole file was transferred to Vikram Sarabhai Space Centre and their team came here to find out what is the status and all that and they had made an observation that we should use a bigger mixer in line with what is used by SHAR. SHAR is using 2.5 tons mixer, we have done the trial with 600 KG mixer. So a call was taken that a larger mixer is required so we obtained the larger mixer and that is being installed at Katepally. Once the mixer is ready we will be again doing a trial with that new mixer for qualification and all that and then the order will be placed. In between they called us to Vikram Sarabhai Space Centre. I and my colleague Mr. Chowdary we had gone there, and we returned from there and we saw their facility and all that. So very much the order is in the pipeline but there are certain observations which are being observed there.

Dixit Doshi:

When is the next trial expected after the installation at Katepally?

A. N. Gupta:

Once the installation at Katepally is ready we have to inform them and they will come and see it and all that and then they will place an order for trial on that.



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Moderator: We have a next question from the line of Rahul Kumar from Mathew International. Please go ahead.

Rahul Kumar: Mr. Gupta my first question is again about the BEL order. If I'm able to understand from your conversation with the last analyst, the amount is around 9600 crores?

A. N. Gupta: Yeah.

Rahul Kumar: And how much we have bided for because there are other guys like Solar, KELTECH and some of the other international guys means what is the share in the pie we can expect? **N. Gupta:**

It's very difficult to answer your question and there are no other guys which are taking part in LRSAM propellant because we are only...the composition has been approved, it is our composition. And apart from that there is nobody qualified for LRSAM except Premier Explosives Limited at present.

Rahul Kumar: What are the products which are made by us also and our competitors in the listed space Solar and KELTECH Energies?

A. N. Gupta: KELTECH Energy I'm hearing only from you. As far as Solar is concerned we understand that they are also developing LRSAM and also other products based on the technology from HEMRL.

Rahul Kumar: Can you repeat for the Solar part can I please request you to the same?

A. N. Gupta: Solar is also vying for the same products through the technology transfer from HEMRL.

Rahul Kumar: And as per the recent PPT if we will see there are no new orders which are being given in 2017 and 18, all the orders apart from the site mix explosives are belong to 2015. So how the order book is at the same level right now?

A. N. Gupta: I don't know what documents you are referring to but the order book of Premier Explosives keeps on changing every day. Every day we receive the order or we make some dispatches. So presently the order book is standing at the present orders.

C. Subba Rao: It is 68 crores which we have received recently that is part of the order book which was shown in the presentation.

Rahul Kumar: But I will tell you the page # 7 or 8 I have just seen, the order book given was written 2015-2016 this is page #12 of your last PPT way forward. This is industrial license awarded from DIPP. For these industrial licenses have been received any specialized order in the recent past?



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A. N. Gupta: Industrial license is issued by Department of IPP that is Industrial Promotion and Policy which is a part of commercial industry, Ministry of Industries and Commerce and the order is not issued by them. That's only a clearance that under which we can approach the Chief Controller of Explosives to get the permission for manufacture. It has got nothing to do with the orders or it has got nothing to do with our installed capacity.

Rahul Kumar: Any decision on the succession plan because there was always a concern about Premier Explosive's succession plan from the management side or it will be run by professionals?

A. N. Gupta: It is run by professionals. We have a succession plan which is very-very clear we have got Deputy Managing Director, we have got various directors for various functions and all that. I am only promoter of this company and presently shareholder and after 2 years I will take a retirement. My term has been extended by the directors for 3 years and that's it. After 75 when I attain the age of 75, I will take backseat that's all and Mr. Chowdary who is the Deputy Managing Director now would be running the show. It is not a family business. It is a professional business which we are running and the professionals who are below me would take over.

Moderator: We have a next question from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.

Krishna Kumar: If you could just give perspective in terms of the current quarter ridden by the sharp drop in profitability, is it more leverage effect or is it something which is more structural in terms of drop in EBITDA margins?

A. N. Gupta: I have done this earlier and I will repeat again; this is because of the selling price of Coal India is Limited. We can't blame them because it is a reverse bidding, electronic bidding. The Explosive people my colleagues and ourselves we quoted less and we got a lower price almost 10%-11% was the drop in the final price which we got from them and apart from that there has been a change in the accounting system. Everybody has to change over to that Ind-AS which is slightly different than earlier one which we were following. Number three, there was a drop in the foreign exchange value of Indian rupee compared to dollar and we suffered a loss of 43 lakhs because of that. Number four is that our raw material prices went up considerably from RCF. It is about 14% increase and then there was also increase in the employee cost because whether you get a good price or bad price you have to give increment to the people otherwise they will leave us. We have got a very good team so we want to retain them. So there was an annual increase of 10% to 12% there because of all that there is a reduction in the bottom line. But top-line if you see 2.5 crores or almost like 5% to 6% increase in the quarter and based on that we have predicted about 15% to 20% increase in the total turnover. Last year we attained something like 16% increase in the top line and bottom-line was also quite healthy. But current year because of this certain pressure and lack of some export order which we were lucky to get



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last year from Egypt for specialized items like 40-gram fuse and 80-gram fuse it has been reduced. So these are the major things which we contributed to the lower margin.

Krishna Kumar:

But in the rest of period of 9 months do you see some relief in most of the cost factors you mentioned, so would we be able to recoup margins into the remaining part of the 9 months? Do you have any price relation or cost pass through contract in the order book?

A. N. Gupta:

We have a price which is linked to the raw material prices but it is once in quarter so the beginning of the quarter there would be price increase on the basic price which is fixed by Coal India or Singareni Collieries or Neyveli Ignite Corporation and we hope that any change in the raw material prices would be compensated by them. But the basic price which we have lost 11% on that that will remain same. As far as we're concerned we are trying to cut our costs and somehow see that our profitability is maintained.

Krishna Kumar:

You mentioned about 43 lakhs Forex impact, is that lot more one-off or could you explain what it pertains to?

A. N. Gupta:

It pertains to the hardening of dollar and reduction in the value of rupee INR. Presently we have to pay something like.....

Krishna Kumar:

I was trying to ask whether it is on the raw material side or which part of the cost structure gets impacted?

C. Subba Rao:

Actually it is the borrowing in the dollar terms part of the cash credit they call it FCNR demand loan sanctioned for one year. So for time being we can take it as a book entry in the sense if say again rupee appreciates that will be a gain but the main point here is the difference in the interest rate between rupee and dollar loan that is close to 4%. So maybe we might have paid less interest during the last 2 years or 3 years because of that but now with the appreciation of dollar maybe some of that gain is lost. So I hope again rupee will appreciate then we will get back to what we lost this time.

Krishna Kumar:

You mentioned something on the LRSAM so what was the potential in terms of order flows that we will get from the clients now since BEL also got orders, do we expect to get some business in the rest of the year?

A. N. Gupta:

Certainly because we are the only party amongst all the explosive manufacturers whose product LRSAM has been approved by the LRSAM project and DRDO.

Krishna Kumar:

So any rough indications or potentials and the business value for us?

A. N. Gupta:

It will amount to something which is called crystal glass gazing, so I don't believe in that and I will not like to put a figure on that and certainly the orders for LRSAM are going to be placed



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only on our company. We are already seeing some orders are being placed and we are supplying more and more quantity with the existing orders which was placed long-time back on 150 numbers.

Krishna Kumar: Is it possible to at least talk about the old order about 100 numbers that you got orders what will be the value?

A. N. Gupta: No, I will not be able to tell you what the quantum of order is.

Krishna Kumar: Even for old business.

A. N. Gupta: Yes.

Moderator: We have a next question from the line of Santosh Y from India Nivesh. Please go ahead.

Santosh Y: In FY19 if I have to pick up what kind of order inflows should come, is it fair to assume that any ordering from the MRSAM would happen and ordering from the chaffs and flares and Air target you made, these three are the areas could be looked forward optimistically that these awards should come in at least 19?

A. N. Gupta: Yes, certainly the orders for chaffs and flares will certainly be coming in this quarter. In fact we had quoted and they offered a price which was not very lucrative so we would have been just on the margin so we refuse to take the counter offer and we have been invited on 16th to Delhi for negotiations. And as per as the ATI is concerned yesterday only we got the registration of that item from QA agency. Now the next step will be to open the commercial bids and though we are the only bidder for present and the order will be placed on us.

Santosh Y: And MRSAM?

A. N. Gupta: MRSAM is nothing but same as LRSAM. LRSAM and MRSAM is similar as far as the hardware is concerned as well as the composition is concerned.

Santosh Y: Next question on the revenue mix; we were earlier having the target of 65% of our revenues from the Defence by 2020 and 35% from explosives. We were trying to change the business mix which could help us improvise the margins. Based on the current order inflows that we are seeing in the last 2-3 quarters we see that pertaining the target could be a very challenging task. Do we still attain put the target of 65% of revenues from the Defence by 2020?

A. N. Gupta: Yes certainly. This order book position does not take into consideration the SHAR contract which lapse after 10 years we got an extension of one year and now that they have negotiated everything is there but there is some formality from their side which has not been completed. They have placed an order for 1 week; it is to be increased by another 1 week if the sanction



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from Delhi doesn't come. So we are working on that 1 week, 1 week extension right now. Once the order comes in there that will also be added to the order book. Presently the order book of service is 11 crores which is the order received at Jagdalpur. It does not include the SHAR order. The SHAR order when it comes it will be added to that and the present position will change.

Santosh Y: On the raw material front what percentage of the total ammonium nitrate is procured from RCF and would we see a similar kind of price effect of this higher price movement on Q2 and Q3 quarters because Q4 would have some absorption of that base effect earlier?

A. N. Gupta: Every quarter the price will be now taking into consideration the price of RCF. The first quarter is based on what we quote whatever is the lowest price on which the Coal India places order on everybody. After that the impact of ammonium nitrate price will be taken into consideration for fixing the price for the next quarter.

Santosh Y: What's the exact CAPEX you have done in Q1 and what's the status of it? As of now where do you stand from our CAPEX plan to you?

C. Subba Rao: CAPEX figure is about 15 crores CWIP and the target for until December or March presently the Katepally project is something like 50 crores so we hope we will be building the entire facility by that time.

A. N. Gupta: The project is going on as per the projections and Katepally, there we are doing some pooja in September and by end of this year I hope that first of our line which is for RDX and SMX would be cleared by Chief Controller of Explosives and we are hopeful that the entire project would be on stream by the next financial year.

Santosh Y: We reported the lowest EBITDA margins since 2013. Is there a possibility that we could end up in the year FY19 with the EBITDA margins of sub-8% or sub-9% kind of levels mainly considering the delays in the shift in the business mix, one, second higher cost of RCF it is likely to sustain and could affect our financials?

A. N. Gupta: I am not able to understand what you're saying so please repeat your question

Santosh Y: I'm just trying to understand in the quarter Q1 FY19 we reported EBITDA margins of 4.9% which is sharp decline from 9% last year same time period. So is it right that we could end up FY19 full year with an EBITDA margin of sub-8% or sub-9% kind of EBITDA margin for the full-year?

A. N. Gupta: You are asking that question to the promoter of Premier Explosives or to the management of Premier Explosives? Now asking such question do you think they are valid? We are sitting



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here to improve the EBITDA margin and you are asking whether it will be remaining at the same level.

Santosh Y: I am very happy that we don't end up with that kind of EBITDA margins that is what I would like to see.

A. N. Gupta: That is our effort to improve the EBITDA margin. We are very sorry of the results of last quarter and we hope to face very sort of angry financial people and also our shareholders for this. But certainly our effort will be to not to continue the same EBITDA margin for the whole year.

Santosh Y: Just to make us enlightened what could be the areas where we see scope for EBITDA margin improvement as you said they would be having increase in the ammonium nitrate prices but apart from that any concrete initiatives we are taking which could help us EBITDA margin improvement?

A. N. Gupta: Ammonium nitrate as I told you it's a onetime effect and that is going to be taken care by Coal India Limited or Singareni whoever uses every quarter. Now first quarter depends upon what is the price agreed with Coal India. After that effect of ammonium nitrate is not there it will be taken care by the pricing. Now this Forex increase or reduction it also depended on the INR value and dollar value. Now if you continue to have the similar sort of thing obviously it will come in the next quarter also or thereafter. But if there is further improvement there is improvement in rupee value and dollar value reduces obviously the 43 lakhs will not repeat and the change over from GAAP to Ind-AS is also once in a while. It has got its share only once and that took away almost like Rs. 30 lakhs profit out of our kitty. And these things they don't have the repetitive nature. They are only once in lifetime. Right now we don't have an order of service contract at SHAR but we are waiting very keenly not only we but the people at SHAR also are waiting that they get the sanction. Instead of sanction they got a very long list of questions from Delhi so they have a reply to that immediately by e-mail and they are waiting that they will get the clearance as soon as possible and our contract there will be started. They have a casting program and right now they are in the process of how to manage that with only 50 people working on from Premier Explosives instead of 300 people.

Moderator: Thank you very much sir. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments. Over to you.

Sanidhya Jain: Thank you Vikram. On the half of S-Ancil Technologies I thank Dr. Gupta and Mr. Rao and all the participants for joining us on the call. Thank you.



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