

29th January, 2019

To,
The Bombay Stock Exchange Limited
Corporate Relationship Department
Floor – 25, P.J.Towers, Dalal Street,
MUMBAI – 400 001
Scrip Code: 526247

To,
National Stock Exchange of India Limited
Listing Department,
Exchange Plaza, Bandra Kurla Complex,
Bandra (E),
Mumbai-400051
Trading Symbol: 'PREMEXPLN EQ'

Dear Sir/Madam,

**Sub: Transcript of Conference call pertaining to the Third Quarter
ended 31st December, 2018 Results**

Please find attached the Transcript of the Conference Call hosted by, S-Ancial Global Solutions Private Limited, on 24th January, 2019 pertaining to, 'Premier Explosives Limited Q3 & FY19 Earnings'.

This is for your kind information and record

Thanking you,

Yours faithfully,
For **Premier Explosives Limited**


Vijayashree.K
Company Secretary
Encl:a/a





“Premier Explosive Q3 FY19 Earnings Conference Call”

January 24, 2019



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

**MODERATOR: MR. NIKUNJ SETH – S-ANCIAL TECHNOLOGIES PVT
LTD**



*Premier Explosives
January 24, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the Premier Explosive's Q3 FY19 Earning 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nikunj Seth from S-Ancial Technologies. Thank you and over to you sir.

Nikunj Seth: Thank you Janis. Good afternoon everybody. I on behalf of S-Ancial Technologies welcome you all to Premier Explosives Limited third quarter results 2019 earnings conference call. From the management team we have with us Dr. A N Gupta – Chairman and Managing Director, Mr. T V Chowdary – Deputy Managing Director and Mr. C. Subbaro, who is the CFO. May I now request Dr. Gupta to give his initial remarks? Over to you sir.

A N Gupta Thank you Nikunj. Good afternoon everybody. I am happy to present this year's third quarter results which are better than the previous quarter i.e. the second quarter and the last year same quarter of financial year 2018. While our DMD Mr. Chowdhary will update you on Capex and projects, our CFO – Mr. C Subba Rao will brief you on quarterly results. I will deal with broad business trends.

As has been mentioned earlier we have been focusing more on defense opportunities and third quarter results indicate our efforts in that area. As reported in investors presentation, our defense explosives clocked a turnover of Rs. 27.06 crores in third quarter which is 45% higher on year on year basis, which has been possible because of higher Akash dispatches as well as RTRS motor supplies to TBRL. Regarding O&M, after completion of SHAR previous order in July 18 we have commenced the new order for January 2019. The new order is again for 10-years period.

In commercial explosive area there has been improvement in demand and price of product nature from mid of December. And I expect the impact would be visible in fourth quarter. We participated in tenders for supply of bulk explosives to Neyveli Lignite Corporation and I am very happy to say that we are L1 and would receive the order by the end of or maybe any day during the month. As of 1st January, 2019 our order book stands at a total of Rs. 402 crores comprising commercial explosives Rs. 159 crores and defense explosives is Rs. 53 crores and O&M projects of Rs. 190 crores. We expect orders for Chaffs ATI from Air Force, strap-on motor from ISRO and bulk explosives from Neyveli.

I am happy to tell you our company has been selected by Indian Air Force to develop Chaffs and Flares. As per the memorandum of agreement, the suppliers would come under the category of IDDM and the company would be entitled to IPR over these products. We have already notified this update to the stock exchanges. May I now request Mr. Chowdhary to update on the expansion project?

T V Chowdhary

Good afternoon everybody. This is Chowdhary. On updates of our project progress, I am happy to inform you that our Katepally project is progressing well with specified focus on solid propellant plant and RDX and HMX plant. ISRO is eager to process the Strap-on motors in our plant at the earliest and in this regard, we have already submitted the quotations and the technical evaluation is going on and very soon we are expecting an order. And regarding the RDX and HMX plant, the equipment is all received and that is being installed and it is going as per the schedule. And about the CAPEX during the last 20 months we have incurred a total CAPEX of Rs. 42 crores. In Katepally new project we have Rs. 25 crores and existing PDK expansions Rs. 14 crores and others Rs. 3 crores. This is towards machinery, buildings and capital works in progress and advances and ToT fee for the new propellant technologies. And this amount has been funded from QIP. And regarding the land at Sriharikota SHAR, as you are aware the land was allotted by AP Government, provisional allotment was made but on relooking at the project and the availability of the land we felt that more land is required i.e. 250 acres for which we asked at a different location and that is being processed expeditiously.

So we are hoping that the land will come to us very soon and regarding the ammonium perchlorate plant which was capitalized last year, we have already started producing and then using in our products for self-consumption and also we have got trial order for solid fuel complex Jagdalpur that is a DRDO division as a trial order. Once this goes through the trial of propellant manufacture with this then there will be a regular offtake. May I now request Mr. Rao to update on financials?

C Subba Rao

Hello good morning everyone. For the quarter, total revenue is Rs. 69.36 crores as against to Rs. 67.49 crores in the last year third quarter, that is more or less the same, 3% higher. Our operating profit for the Q3 was Rs. 10.26 crores against Rs. 3.85 crores one year ago. Profit before tax stood at Rs. 8.55 crores as compared to Rs. 2.43 crores in Q3 FY18. PAT is Rs. 5.69 crores as against Rs. 1.6 crores on a year on year basis.

Moving to the results for the 9-months ended December 31st, our total revenue is Rs. 182.35 crores as against Rs. 182.62. Again of course it is more or less the same. Our operating profit for the nine months has been at Rs. 18.42 crores compared to Rs. 14.19 crores in the previous year nine months. PBT 13.47 versus 9.35. PAT 8.91 versus 6.28 crores. So these are briefly the financial results. With this we now open the floor for questions and answers. Thank you.

Moderator

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Dixit Doshi from Whitestone Financial, please go ahead.

Dixit Doshi:

First question is, we have seen a good EBITDA margin improvement in this quarter – so is it mainly because of high sales growth in the defense side or we have also seen the improvement in margins in explosive division also because I heard you mentioned that the detonator prices

are improved from December. So, is it that we have not yet got the full benefit of detonator prices in Q3?

A.N Gupta: Yes, you are right. Detonator prices have improved from middle of December and the results will be seen in the next quarter. So, the improvement is only because we have reduced our commercial explosive business and we have improved upon our defense portfolio.

Dixit Doshi: Second thing if you can throw some light on defense order book because it is just Rs. 53 crores now, so how do you see the outlook as far as defense revenue for FY20?

A.N Gupta: Well, we have reached a magic figure of 39.59 which is say roughly 40% and our next year target is certainly going to be more than 40%. So there will be further improvement.

Dixit Doshi: So you expect good orders from the defense over the next 2-3 months or 5 months because our order book is just Rs. 53 crores.

A.N Gupta: Yes, we are looking for higher business in defense because we are expecting order for Chaff and Flares from Indian Air Force as well as we are looking for the ATI orders and other orders from export market. So, we should be certainly doing better in defense market.

Dixit Doshi: Okay, last one thing. We have election in next 3 months. So, do you foresee that the new orders can come only after the new government is formed or we can still get orders in next three month?

A.N Gupta: See these orders which I mentioned to you have nothing to do with the government, whether the new or the old one, it does not matter.

Moderator: We will take the next question from the line of Parul Inamdar – an individual investor, please go ahead.

Parul Inamdar: The order book for services business seems to have shot up quite a bit. So could you just throw some light on that?

T.V Chowdary: Order for the GoCo i.e. service contract, operation maintenance, service contract is received for a period of 10 years. So the figure in the services is for 10 years.

Moderator: Next question is from the line of Arul Kaarthick from Karvy Stock, please go ahead.

Arul Kaarthick: For current year what is the kind of revenue and profitability that you are planning to reach?

A.N Gupta : It is something which I do not think we can reveal and what is our targets and all that but certainly it is going to be better than the previous year.

- Arul Kaarthick:** And in terms of like last quarter Akash and what other products have contributed for this growth?
- A.N Gupta:** I think this all is given in the initial address and all that but certainly what we can say is that defense items like what we have received from BDL and others have contributed to this.
- Arul Kaarthick:** And sir is it possible to quantify the tender value of Chaff?
- A.N Gupta:** Yes, it is about Rs. 80 crores, total.
- Arul Kaarthick:** And execution period sir?
- A.N Gupta:** 2 years.
- Arul Kaarthick:** Any other order that we are looking at from Coal India or Singrauli Coal?
- Dr. A.N Gupta:** When the order comes, when the inquiry comes we will let you know.
- C. Subba Rao:** Whatever we have from hand they will last till at least March 2020, so only once they come to closure they will float the new tender.
- Arul Kaarthick:** What is the kind of market that you are looking for Katepally plant like solid propellant and RDX and HMX?
- A.N Gupta:** Yes, we are also looking for mines and warheads and ammunition and so on. There are number of products. In fact it is almost like a small ordinance factory.
- T.V Chowdary:** In addition to our extension of our propellant manufacturing facilities and capacity we are adding several new products at Katepally which will bring the revenue. That is warheads, mines, and HMX-RDX compounds, and several others.
- Arul Kaarthick:** Sir and this IDDM project, if the IPR is granted to us so what will be the process every time when there is a tender we will be competing or like is there going to be an agreement for flat 10 years or something like that where we will be supplying a standard quantity?
- A.N Gupta:** Well IDDM is only given by the Government and we can get 10% advantage. But 10% advantage is hardly given because for everything they want to be that you should be competitive.
- Arul Kaarthick:** And any export order for ammonium perchlorate?
- A.N Gupta:** Not yet.

- Arul Kaarthick:** Is it possible to quantify the cost advantage instead of buying it from outside? Internally we have put up a plant and how is that? Is it possible to quantify the benefit?
- A.N Gupta:** No, it is not possible to quantify and we will not like to reveal that. But it is certainly better and cheaper to have a control over all the raw materials and slowly one by one, one is the insulation material, second is the AP, third one will be HTPB. We will like to have a total control over all the raw materials which go into propellant.
- Arul Kaarthick:** And with that working capital cycle, so what is the current working capital cycle?
- A.N Gupta:** See depends upon various products and the customers. Like Coal India, Singrauli and NLC it is 15 days or 2 weeks or so. While into the government it can be months.
- A.N Gupta:** In terms of defense it can go up to anything between 3 months to 6 months.
- Arul Kaarthick:** And anything on other SAM projects like MRSAM or QRSAM?
- A.N Gupta:** Yes, they are all under development and we are part of that development and we are supplying to LRSAM and MRSAM. We have also done QRSAM and recently we have supplied the one trial batch which has been flown in the form of NGARM. We are part of every missile development.
- Moderator:** Next question is from the line of Nirav Savai from JM Financials, please go ahead.
- Nirav Savai:** Question is related to the explosive business where we have been constantly seeing decline. Is it because of the industry as a whole where you see demand contraction or you see our focus is shifting towards defense?
- A.N Gupta:** Commercial explosive depends upon, it is a cyclic business.
- Nirav Savai:** Is it because of this ammonium nitrate prices or anything like?
- A.N Gupta:** Ammonium nitrate prices keep on going up and as there is a stiff competition, more and more people are coming towards making updates because the government has adopted to reverse bidding sometimes the prices go down, sometimes prices are okay depending upon number of people who are bidding for the offer.
- Nirav Savai:** So if we see in the last two quarters, how have been the prices in the ammonium nitrate side? Do you see anything going down or you see it stabilizing now?
- A.N Gupta:** They are going up.

- Nirav Savai:** So ideally our revenue could have been much higher growth, right because in a higher price scenario do you think there is a possibility of passing on prices?
- A.N Gupta:** Only the prices in trade markets we can control from dispatch to dispatch. The prices on Neyveli, Singrauli or Coal India depends on the annual tender or bi-annual tender or tri-annual tender.
- Nirav Savai:** Okay, so every quarterly prices are revised there?
- A.N Gupta:** Yes. They are linked to ammonium nitrate prices. And price is going up of ammonium nitrate, then the product will also go up.
- Nirav Savai:** So on a trade side how would you see the demand there?
- A.N Gupta:** Right now, it is very good and I hope that it remains good for long time because for a change we are sort of seeing, so I am hoping the trade market also.
- Nirav Savai:** So right now we are majorly on long term contracts with Coal India, Neyveli Lignite and all of that, trade would be a smaller part or what percentage would be trade?
- A.N Gupta:** Well trade will be literally about half of the revenue.
- Moderator:** The next question is from the line of Nidhi, Dalal & Broacha please go ahead.
- Nidhi:** I just wanted to understand like how did we improve our operating profit?
- A.N Gupta:** I think the question has been asked by everyone and we have improved our operating profits by changing our focus from commercial to defense. We have done nearly 40% - 39.59% to be precise in defense compared to 35.93% in the previous year.
- Nidhi:** Do we plan to expand this more? Like do we plan to do it more in defense going ahead?
- A.N Gupta:** Yes, certainly.
- Nidhi:** So what would be our target going ahead?
- A.N Gupta:** 100%.
- Moderator:** Next question is from the line of Pankaj Bajaj – individual investor, please go ahead.
- Pankaj Bajaj:** My question is towards this NHN based detonator for which technology has been licensed to a US based company, can you please throw some light on what is the revenue share, how much is

the duration of this license and what will be the payment terms? Second question is what is the current revenue share coming out of this license?

A.N Gupta: NHN is our own development so there is no expenses and what we exported to USA, we have received 100% payment. #2 is all the detonators which we make today except for some specialized detonator for defense are based on NHN. Does it satisfy your queries?

T.V Chowdary: Then what you are saying from the technology answer, it is one-time payment already received so there is no regular revenue from that point. And about revenue from the detonators made from NHN, the purpose of shifting is not gain in terms of margins but it is mainly for the safety and green detonator.

Pankaj Bajaj: Okay, so it is not a regular revenue stream, it is one-time deal that has been executed and all 100% revenue has been recognized?

A.N Gupta: Yes.

Moderator: We will take the next question from the line of Jayesh Gandhi from Harshad Gandhi Securities, please go ahead.

Jayesh Gandhi: From the CAPEX that we are doing at Katepally, what can be the peak revenue that we can generate out of it if you can throw some light on that?

T.V Chowdary: No, with the products and all we planned I think it is very difficult to predict at the moment but we are expecting a good revenue.

Jayesh Gandhi: Can we assume it will be at least one-time CAPEX?

T.V Chowdary: No, it will be less than that.

C. Subba Rao: It will not be that much.

A.N Gupta: These are all defense products like RDX, HMX and propellant and all that. Nothing can be predicted until and unless we get the order in hand. That is what Mr. Chowdhary said that he will not be able to project what will be the revenue from Katepally. It could be one time or it could be two times, it could be many times, it depends upon how we perform and how the products are accepted. It is too early to count our pennies.

Jayesh Gandhi: One bookkeeping question, what are the current receivables as on 31st December?

C. Subba Rao : Our current receivables are about Rs. 80 crores.

- Moderator:** We will take the next question from the line of Ketan Gandhi from Gandhi Securities, please go ahead.
- Ketan Gandhi:** Is it possible for you to give guidance in terms of whether we are able to maintain this margin what we have achieved in this quarter for the next couple of years?
- A.N Gupta:** That is the aim, that is what we are working out. But next quarter results will come after 3 months and then we will come to know. In the meantime, there are a lot of things which are based on Katepally and all of that, and how it shapes up that will be based on that. So it is not possible to look into the future but certainly our intention would be to maintain the profitability.
- Ketan Gandhi:** What are the parameters that can affect our margins looking at the current quarter? Any guidance on that?
- A.N Gupta:** How we get the orders from the defense, that is the only one parameter on which it will depend on.
- T.V Chowdary:** So the defense orders there the predictions are difficult to be made because they are dependent on the RFPs and technical evaluation and then final price and all those which can stretch from anything between six months to 2 years.
- Ketan Gandhi:** What happened in the BEL contract they have reduced the margins. Are we seeing any kind of such reduction of the margin for the product what we have developed or which we have got in the TOT?
- A.N Gupta:** No, I do not think we are looking for any reduction in the margin.
- T.V Chowdary:** You mean Akash?
- Ketan Gandhi:** Yes, Akash and all others.
- A.N Gupta:** No, we are not seeing that.
- Ketan Gandhi:** Okay, because government has said to BEL to cut down the margins. That is why I was asking whether it does mean anything to us or no?
- A.N Gupta:** If BEL is taking 200% margin they can afford to cut. I am just talking about 10-15% in all that. It is not possible to reduce too much. BEL and BDL are the monopoly companies of Government of India and the order is also given by the Government of India depending upon their profitability and all that and they fix their margins.



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- Ketan Gandhi:** Any clue on the seventh quarter on Akash order? Any talks on that or still nothing has been finalized?
- A.N Gupta:** Nothing has been finalized.
- Ketan Gandhi:** Any clue, when it can be?
- A.N Gupta:** I think it has to be quickly but first of all it will contribute from second quarter of next year because there is plenty of time which requires from the start of the process to – this is about 3-months time or more than 2 months and three months time but there has been a gap. Now it depends upon when they will start.
- Ketan Gandhi:** Any talks of price revision for the next Akash order or nothing has been done?
- A.N Gupta:** When the order comes there would be inquiry, again we will have to quote and the process will start. I think your question is quite theoretical.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Nikunj from S-Ancial Technologies for his closing comments.
- Nikunj Seth:** Thank you Janis. On behalf of S-Ancial Technologies I would like to thank Dr. Gupta, Mr. Chowdhary, Mr. Rao and all the participants for joining us on the call. Thank you and have a great day.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Premier Explosives we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.