



“Premier Explosive Ltd. Q4FY14 Earnings Conference Call”

May 26, 2014



MANAGEMENT: DR. A. N. GUPTA – CHAIRMAN & MANAGING DIRECTOR
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Moderator: Ladies and gentlemen, good day and welcome to the Premier Explosives Ltd. Q4 FY14 Earnings Conference Call hosted by S-Ancial Advisors Pvt. Ltd. As a reminder, all participants' 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, please signal an operator by pressing * then 0 on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Milan Bavishi, thank you and over to you Sir.

Milan Bavishi: Thank you, good morning everyone. I, on behalf of S-Ancial Advisors welcome you to the Q4 FY14 results conference call of Premier Explosives Ltd. Today we have with us, Dr. A. N. Gupta – Chairman and Managing Director and Mr. C Subba Rao – CFO of the Company. I now handover the call to Dr. A. N. Gupta for opening remarks, over to you Sir.

Dr. A. N. Gupta: Thank you Milan. Good morning everyone. I welcome you to Premier Explosives 4th quarter Conference Call.

The net revenues for the March ended quarter have grown 15% year on year to Rs. 410 million. The Company's operating profit stood at Rs. 30 million. The profit after tax stood at Rs. 23 million. For the full year, the turnover was Rs. 1454 million and profit after tax was Rs. 92 million. During the quarter, there was a drop in operating profit on account of sharp fall in the prices of detonators which fell due to sluggish demand due to extended monsoon and specifically due to the restrictions of, on movement of explosives during general elections. However, general elections are over and we are seeing the pickup in demand and we expect that the mining sector will improve during the year 2015. Going forward, we believe that the lifting of mining ban on Goa and Karnataka are positive indicators, further aggressive development plan of the new government which is about to take over in few hours should bring in growth. It is interesting to note that we are growing rapidly in The Defense sector as our new products are getting inducted in to The Defense Forces. This is extremely encouraging given the efforts your Company has put in, in research and development of these products. Our R&D team is constantly making efforts to develop new and superior products and it is our pride to serve The Nation by being part of the prestigious Defense Programs. I am glad to inform that we have recently concluded a collaborative Research Agreement with IIT Madras in the field of propellants. To conclude I would say, we are excited about the future business opportunities and I would like to take any questions you have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Mr. Raj Gandhi of Principal Mutual Fund. Please go ahead.

Raj Gandhi: Would it be possible to tell, what is the utilization at our Propellant unit?

Dr. A. N. Gupta: It is a difficult question because our licensed capacity is in tons. It says 1000 tons of propellants per year. And as you are aware, the sizes of Propellants used for various programs, they vary

from as much as 50 kilograms per unit to 300 kilograms per unit. So it is difficult but we have a large capacity and I assure you, we will be able to take whatever orders we receive.

Raj Gandhi: And what are the dynamics in this segment, in the sense that what is the kind of demand that India has and how soon can somebody ramp up? Let us say, if you were to double, what is the requirement per se?

Dr. A. N. Gupta: Well, requirement is very large, as you know we have been almost 100% dependant in the case of missiles and rockets on imports. The only one rocket which has been inducted is Pinaka and the only missile which has been inducted so far is Akash. Apart from them, there are a number of them, series of them which are under development. And right now, we are importing or trying to import or using some of these, which have been imported 25-30 years back, to somehow guard our territory. So as and when, the new things are developed, I hope that they would be inducted like Akash, for The Akash has gone from almost like single unit to now more than 500 units per year.

Raj Gandhi: So let us say, given that the requirement is in place, if let us say, as a Company like you have capacity and you can ramp up further, how soon can this business grow 2x, 3x, how do we move forward in that direction?

Dr. A. N. Gupta: These things cannot be quantified like 2x, 3x and all that but certainly it is ramping up faster than what we expected. Talk to me about 2 years back, I would have said that it will take time but now I can see a couple of them coming on to the horizon and ramping up fast. It will depend upon the new Government's policies of what they call Public-Private partnership but here they have very little choice because Ordnance factory is fully booked and they are producing whatever maximum they can produce in the case of Pinaka. In case of Akash, they have an order for it but they have not supplied a single unit. They are already behind the schedule.

Raj Gandhi: So what specific policies should we look out for, in the sense, for this specific lever, this propellant, which are the specific policy things that we should look out for?

Dr. A. N. Gupta: See there are 2 things here; one is a policy that we should make it in India, which is already there in place if you see DIPP 13, the first preference is to be given for 'made India'. Second is, 'make and buy in India' and the third one is import in case there is nothing available in the 'make India' and 'make and buy India'. So the policy is in place but the new government may give a Filip to it and implement it on the ground faster than it was being done earlier. It is what our wishful thinking is. I have got lot of expectation from Mr. Modi, as you would have.

Raj Gandhi: And in terms of explosives, now generally we have seen there are lot of players in the segment, there are almost 30-35 players but very few like you have been able to scale up, so what are the factors hindering lot of these other players being able to scale up as fast as companies like you have done it?



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- Dr. A. N. Gupta:** Well, you see in the case of commercial explosives, the competition is very severe; the technology is not all that sophisticated, so you find that my trader becomes a competitor, his trader becomes another competitor and there were no barriers. The earlier Governments were giving the permissions very easily, so numbers of players have come. Everyone has got a spare capacity, so it is only on the price cutting that is, whosoever is most economical, sells more. But recently, with the implementation of Ammonium Nitrate rules, AN is also being treated as an explosive. And the manufacture, transportation, storage, everything has become regulated, that has given a certain sort of a push back array effect to this.
- Raj Gandhi:** But even the organized market used to face lot of competition from this ANFO and all that.
- Dr. A. N. Gupta:** That is right. And so is being used everywhere. So today what is happening because ANFO is getting a push back because of the legal hurdles, there are barriers for the ANFO. So industrial explosives has seen some fillip but then the competition is too severe. You said 30-37 players in the industry, if I remember correctly, they are 45.
- Raj Gandhi:** And what are your expansion plans in explosives segment, Sir?
- Dr. A. N. Gupta:** We are not going aggressive on explosives. Whatever comes in the right price, that is, if there is a very good bottom line we take and if anything, we have to bend our back to get an order, we simply say, thank you very much.
- Raj Gandhi:** So what is the reason, you are not so aggressive on explosive?
- Dr. A. N. Gupta:** There is no use of doing everything when no profit is there. So instead of that we put all our energies into high-tech things, what we are doing is a case of defence and all that and the gives us a sense of pride, it gives us a good business, it gives us a good healthy topline and, bottom line. There is another factor which I think you could look at, is the off sets. Those foreign suppliers who are getting sophisticated equipment orders for more than 300 crores, 30% of its content is to be bought from indigenous sources and we have signed a couple of non-disclosure agreements, memorandum of understandings and IOPs, that is, Indian Offset Partnership agreements with International Companies and they are trickling in, they are certainly trickling in.
- Raj Gandhi:** So companies like us Sir, in which segment can we get order due to this offset clause?
- Dr. A. N. Gupta:** In the Defense. Most of these off sets are only for the Defense business. The Pyro Devices, the propellants and the various other specialized products which we have developed as they are being considered.
- Raj Gandhi:** So would it be possible for you to quantify in terms of what is the revenue potential for our company that we see over next 2-3 years?

- Dr. A. N. Gupta:** It is just a beginning and I do not think even I can quantify it. I, myself cannot quantify it. You got to give it a little time, let it mature, there is an active offer from a foreign Company; I cannot give you the name. They have already sent their drawings and we are studying them. I am taking a trip to America to visit their factories and offices. Subsequently, they would be coming to our factory. They have already visited our factory twice for a recce for finding the capability and it comes through probably next quarter or next to next quarter we can talk about it.
- Raj Gandhi:** Okay, so basically you will be manufacturing for them here locally. So in that times it will make them fulfill the offset clauses.
- Dr. A. N. Gupta:** Yes, we will make it supply to them for Indian use and if they require to take it for international, they will take it.
- Moderator:** Thank you. Our next question is from Pratik Poddar of ICICI Prudential. Please go ahead.
- Pratik Poddar:** Could you just talk about price discovery in the mining segment or in the explosive, how does the price discovery takes place?
- Dr. A. N. Gupta:** The prices are competitive and most of the orders from Companies like Coal India Ltd. or Singareni Collieries or Neyveli Lignite and all that are tender based. And they are on the reverse auction, so they give a base price from which we start. And the whole lots of people are sitting there to take the business. So depending upon who is in need of how much business, they keep on bringing their prices down and we select an optimum price, and below this we will not go and when the price is reached and they are not in the first L1, L2, L3, L4 status, or the quantity which we are looking at, we stop bidding. That is how the discovery takes place.
- Pratik Poddar:** The new ANFO rules, does that kind of limit a bit of the competition?
- Dr. A. N. Gupta:** That would limit competition in the field of explosives, yes, the packaged explosives, the small diameters, large diameters, and the Bulk Explosives, certainly.
- Pratik Poddar:** And would that lead to a better price point or it is still very competitive out there?
- Dr. A. N. Gupta:** It will be still competitive because our main suppliers are The Rashtriya Chemical Factories in Bombay, The GNFC in Bharuch and Deepak Fertilisers as you know, in Taloja. One of these suppliers takes the lead, as soon as he sees there is a gap between his price and others' prices, he increases the price. Once the first one increases the price, the second one and the third one also increase the prices. And you find, within a week or so, the prices are almost equalized. So there is a tough competition between the suppliers and the buyers to keep the prices.
- Pratik Poddar:** So sir, in the end, someone with a huge scale benefit would win in terms of L1. Is that a correct understanding? You have huge scale benefit and you would be the lowest cost supplier of

these. Would scale benefits be one of kind of a competitive entry barrier in terms of bidding for these kinds of contracts, The Coal India and Neyveli?

Dr. A. N. Gupta: I have a revelation here. Because most of the raw materials are common, most of the technologies are common so the cost of inputs is more or less common. The suppliers are also common and these suppliers like RCF, GNFC, and Deepak. They do not offer any preferential prices to buyers who take larger quantity or it is very immaterial, So raw material price is almost equal for all of them.

Pratik Poddar: So the entry barrier remains the licensing requirement which you require. That is the only entry barrier in the explosive segment, is that understanding correct?

Dr. A. N. Gupta: Exactly, the entry barrier is the licensing and the second one is the need. Now, those who have expanded, those who have got a very large manpower, large set ups and all that, they look for larger volumes. When they look for larger volumes, they cut down the price and most of these companies have got a rule that whether you are in L2 or L9 stage wherever, you have to match the L1 price to get the order. So that becomes the order of the day so that is price of the day for everyone.

Pratik Poddar: Could you just talk a bit more about your Defense, especially in terms of you know what is the domestic competition looking like? Do you have any competition in all the three segments in Defense? Or there is absolutely no competition as of now?

Dr. A. N. Gupta: As of today, the qualified suppliers are, The Ordnance Factory, Itarsi in the public sector and Premier Explosives Limited in private sector, but as you may be aware, another private company got the license for setting up the facility. They set up the facility, but that is still undergoing capacity verification, technology verification, etc. After the technology verification, they will have to go for a technology transfer. So in case it is Akash or some other missile, they have to take the technology from High Energy Materials Research Lab, Pune, etc. After taking the technology, they will have to produce a certain number of grains, establish their quality, and then only they will come into the reckoning. So if you talk in absolute terms, it is not that I am talking on behalf of Premier, as a technical person, I take pride in that, that as on date, we are qualified and Ordnance Factory, Itarsi is qualified. But certainly, I will give a time of maybe six months to nine months depending upon the response from the other institutes and the work they put in and the opportunities they get in, and to come to a level that they can compete. But in case of Pinaka, there is good news; Pinaka was so far a captive production of Ordnance Factory, Itarsi. Now orders for Pinaka may flow to private producers also. So that could open up a large segment to both of us.

Pratik Poddar: So both of the private players, I mean everything is done. Only the order needs to come. In terms of say, physical infrastructure and all, all has been set up.



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- Dr. A. N. Gupta:** Well, we are a little bit ahead of them. We had received an order for Pinaka in 2011-12 and we have supplied for qualification. They were tested and found to be excellent. After that, we got an order and they were tested at static as well as dynamically and the performance was found to be “Textbook Performance”. So we have an advantage that it has been already proven. The technology transfer has taken place, and they have been dynamically tested.
- Pratik Poddar:** This technology transfer and certain things which you mentioned, is it time consuming, say would it be 1 year, 2 year and that would give you a competitor’s edge over your competition.
- Dr. A. N. Gupta:** Certainly, it takes time because first thing is the verification and all that, after that it goes to a technology Board. They have to have a committee meeting and then they determine what is the amount of the funds required for transfer of technology and the cost of technology, etc. we have to deposit that amount, sign a memorandum of understanding with the institute which is giving the technology, then those people give us the documents. After that, they come to our factories and we produce under their supervision and they take it back to their institute for testing it. And if they find it is meeting all the requirement it is ok, if it is not meeting the requirements, again some changes are made. Like that, it takes time. So normal time, for technology transfer is between 3 to 6 months. After the technology transfer, they will independently ask us to produce a few numbers, test them. When they have a confidence that you can produce steadily a right quality product, then only the technology is said to have been transferred.
- Moderator:** Next question is from Rahul Thakur of BlueLine Capital. Please go ahead.
- Rahul Thakur:** Sir my question is that explosive business is man power intensive, so do you have any plans to go for modernization, automation, so you can reduce the cost?
- Dr. A. N. Gupta:** Certainly, there are continuous efforts for modernization and automation but there are certain things which necessarily have to be done manually, particularly in the production of detonators because each detonator is a very sensitive thing and I think human fingers have the most sensitive things by which it can be handled. So, certain operations are done manually world over. There are companies which have tried to mechanize but they end up sort of a tedious production.
- Rahul Thakur:** Sir my another question was, your revenue mix is going to change. So, you are saying that you are moving towards the Defense and Service sector. So by what percent it is going to be rise the next 2 or 3 years?
- Dr. A. N. Gupta:** Let me say one thing, I am not a crystal glass gazer, but I will give you the figures. In 2010, we had about 17% of our total business from Defense and the year just finished, we had about 29% of the Defense. And this is because there had been only 2 inductions as I told you of Pinaka and Akash. Pinaka was still restricted to only Ordinance Factory. Even today, it is restricted, till we get the first entry. So, it is only Akash which has been giving us and the other trials which we



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are doing with various surface to air missiles. Premier is doing trials with number of them and many of them are, but right now, because of induction of Akash and total order book is we have to complete by 2017. And we expect from now on, that is, from this current financial year onwards, there would be a little more ramp up in the Defense and it will be visible.

Rahul Thakur: Sir about the missiles, what number at missiles are we looking for FY15? How many are going to be there and what can be the order for you?

Dr. A. N. Gupta: I think I have answered this question. As on date, the numbers I think, if it is not asked and I do not answer will be better because these are certain things which we have confidentiality but yes, I can tell you the names which we are aimed and the Akash is in full scale production. For the current year, it will be again going up. **Moderator:** As there are no further questions from the participants, I now hand the floor back to Mr. Milan Bavishi for closing comments.

Milan Bavishi: Thank you everyone for taking out time. Thanks a lot.

Dr. A. N. Gupta: Thank you very much.

Moderator: Thank you. On behalf of S-Ancial Advisors Pvt. Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.

For Further queries:



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