



Premier Explosives Limited

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30th October, 2020

To
The General Manager
Department of Corporate Relations
BSE Limited
Sir Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai -400 001

To
The Vice President,
Listing Department
**The National Stock Exchange of India
Limited**
Exchange Plaza
Bandra Kurla Complex, Bandra (East)
Mumbai 400 051

Scrip code: 526247

Scrip code: PREMEXPLN

Dear Sir/Madam,

Sub: Transcript of Conference call pertaining to the Second Quarter ended 30th September, 2020, results.

Please find attached the Transcript of the Conference Call hosted by, Stellar IR Advisors Private Limited, on 26th October, 2020 pertaining to, 'Premier Explosives Limited Q2 FY2021 Earnings'.

This is for your kind information and record.

Thanking you,

Yours faithfully,
For Premier Explosives Limited

K. Jhansi Laxmi
K. Jhansi Laxmi
Company Secretary
Encl: a/a





“Premier Explosives Limited Q2 FY2021 Earnings Conference Call”

October 26, 2020



MANAGEMENT: **MR. T V CHOWDARY - DEPUTY MANAGING DIRECTOR**
 MR. C SUBBARAO - 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 Q2 FY2021 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call please signal an 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 from Stellar Investor Relations. Thank you and over to you Madam!

Hina Agarwal: Thank you. Good morning everyone and I on behalf of Stellar Investor Relations welcome you all to the Premier Explosives Limited Q2 & H1 FY2021 earnings conference call. We shall be sharing the key operating and financial highlights for the quarter and half-year ended September 30, 2020. We have with us today the senior management team of Premier Explosives Limited, Mr. T V Chowdary, Deputy Managing Director and Mr. C Subbarao, CFO. Before to begin I would like to state some of the statements made in today’s discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to the company’s financial performance have already been e-mailed to you. Now I would invite Mr. Chowdary to share his initial remarks on the company’s performance for the quarter. Over to you Sir!

T V Chowdary: Thank you Hina. Thank you everybody for joining the call. We hope that everyone present on the call and their families are safe and healthy during these times. Also I would like to take this opportunity to thank each and every employee of Premier for their continued support in navigating through the challenging times.

To begin with, I would like to take you through the industry developments particularly the defence sector which is experiencing a structural shift. Lately, the government is providing a significant thrust to defence production capabilities of the country with the aim to reduce the dependence on imports and become self reliant through Make in India initiative. Government has undertaken various initiatives like import embargo on 101 defence products, increasing the FDI limit from 49% to 74% under automatic route, formulation of draft defence production and export promotion policy 2020 among others to bolster the private sector participation in the defence sector with the aim to double India’s defence production in over five years.

To provide the further impetus Ministry of Defence has revised the offset guidelines and abolished the policy that entail foreign companies investing at least 30% of the contract value in Indian manufacturing sector in case of government-to-government or single vendor



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deal. As per the new guidelines, preference will be given to manufacture of complete defence products or components and various multipliers that have been added to give incentivization in discharge of offsets. The new defence acquisition policy has been aligned with government's Atmanirbhar Bharat and it will empower the Indian domestic industry through the Make in India initiative with the ultimate aim of turning India into a global manufacturing hub. In line with the government objective of indigenisation in the defence sector, in recent time, test firing of various missiles like Prithvi-II, BrahMos, Shaurya, Rudram-I, amongst others has been conducted.

Now coming to the company's major developments, I am happy to share that PEL has recently received an industrial license from Department for Promotion of Industry and Internal Trade under Arms Act 1959 for the manufacture of all types of Warheads and Electronic & Mechanical Fuses. The proposed annual capacity for blasts warhead is 2500 units, fragmentation warhead is 5000 units, shaped charge warhead is 2500 units. Electronic Fuses is 4 lakh units and Mechanical Fuses is 6 lakhs units. This is a significant development for the company; it will enable Premier Explosives to enter into new business areas in defense explosives. The production of these products would be done at our Katepally facility.

In the commercial explosive segment, we have recently received an order worth around Rs.83 Crores for supply of SMS/SME explosives and accessories. With government impetus on reducing import dependency on coal in ensuing years and allowing private sector participation in commercial mining space provides a significant opportunity for growth in the segment.

Commenting on the business performance, during the past few months our clear focus has been on the resumption and gradual improvement of production activities the same has been reflected in financial results. Our continuous efforts have aided in delivering strong performance even in these uncertain times. We have registered the 5% year-on-year growth in the topline during Q2 FY2021. With the improvement in the supply chain and logistics including for import of raw materials our production activities are steadily getting back on track, which enables us to deliver better performance going forward. On pre-dispatch inspection of supplies things are also improving on that front, recently a team has been assigned by the MoD for inspection of the orders. We expect this inspection to be completed in the near term and then post which we will be able to dispatch the orders.



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Now I would like to quote update on the status of a few major orders. Further to our update on Chaffs cartridges and flare cartridges order during the last quarter, the resumption of supply chain the import raw material now available. We have started the execution of the order during the quarter and expect to complete the delivery over the period of two years.

Coming on missiles and propellants, Akash missile and propellant order the execution is on track and expected to complete delivery in the third quarter. In addition to this, MRSAM and Astra for which the orders have been received, the production process has started. About the Katapally, the new plant has started functioning and the propellant plant has started functioning and trial production is going on for PSOM-XL space requirement as a strap-on motor and also other defence propellants that is PJ-10, Pralay and other activities have already started and RDX and HMX plant is commissioned and trial production has been completed and assembly of rocket has started and we have already assembled and the products for exports are ready and we have also received government license for these products and in addition to this as I mentioned earlier the new license for fuses and warheads now will open new avenues and new business. Defence and coal mining sector at the stage of transformation at Premier, we are all set to reap opportunities going forward. When I am talking about PJ-10, PJ-10 is more popularly known as BrahMos so once this trial production is completed we will be in the production of BrahMos propellants. I request our CFO to share the financial performance. Thank you.

C Subbarao:

Thank you Sir. Good morning everyone. The results presentation for the quarter has been uploaded on the stock exchanges and on the company's website I believe you all may have gone through the same. Now I would present the financial results for the quarter ended September 30, 2020.

With unlocking of the geographies we have witnessed improvement in our performance and the same is reflected in the quarter ended September 30, 2020. The total income for Q2 stands at Rs.453 million as compared to Rs.432 million corresponding period last year. EBITDA stands at 40 million with EBITDA margin of 8.9%. Our profit before exceptional item stands at Rs.11 million. As an exceptional item we have reported voluntary retirement expense of Rs.91 million in Q2, which has resulted in after tax loss of Rs.80 million. VRS is a one-time expense and would result in manpower cost saving. Now coming to the order book, the company's total order book now stands at 5109 million out of which explosive business comprises around 1161 million, defence segment 2196 million and services that is O&M was 1752 million. With this we now open the floor for questions and answers. Thank you very much.



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- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Kishore Agarwal from CRISIL. Please go ahead.
- Kishore Agarwal:** I have two questions. First one is on the order book if I look at the revenue plus the execution and I deduct the order book there is a negative number of Rs.10 Crores are some orders gone out from the order book and my second question is on the order pipeline, how is the order pipeline looking like?
- C Subbarao:** You are right the Rs.83 Crores order, which we have reflected at Singareni Collieries the previous contract ended there, is some amount of order book, was there, but before that was executed new contract has come so yes there is some amount out from the previous order.
- Kishore Agarwal:** Okay and how is the pipeline?
- C Subbarao:** Pipeline like Mr. Chowdary has already said Astra missile whatever the small numbers, which we already received that is under execution further orders are expected on that and the chaff and flare we have participated in a global tender at that time. We are yet to receive the order for that, but price negotiation and that steps are over. We were hoping that we have received two weeks back but somehow it is delayed, but at any moment it can come.
- T V Chowdary:** About this rocket lot of FIM components are issued by the customer and those FIMs they source from other industries, so all industries are affected with COVID, so those if they get their deliveries delayed so we get our FIM issues delayed, but we are hoping that now things are coming in line and then we will be able to catch up.
- Kishore Agarwal:** My question was like what will be the annual savings that we will generate from the VRS that we took?
- C Subbarao:** On the VRS expense we reported something like Rs.9 Crores of expenditure as one time that would result into annual saving of about Rs.3 Crores that is approximately 25 lakhs per month, but only thing is if at all if we require to increase the production we may have to use some contract labor so that may vary between time to time, but on a theoretical basis it is 25 lakhs per month is the savings of 78 number of employees.
- Kishore Agarwal:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Milan Shah from Urmil Research. Please go ahead.



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- Milan Shah:** My question is the order, which is declared on October 9, 2020, which is 82.80 Crores is included 510 Crores?
- C Subbarao:** That is an order, which is a new one previous order which was there that was not completely done but because new order came we can add the previous order.
- Milan Shah:** Means 510 plus 82 Crores right?
- C Subbarao:** No, that includes already it is there.
- Milan Shah:** Okay thank you that is it from my side.
- T V Chowdary:** I think I would like to add here it is not that we could not supply, there is always order with a little excess quantity and as per the allocation we have to supply, now this was left over at their end and the new order has come and then new order is issued they start closing that.
- Milan Shah:** Okay thank you Sir.
- Moderator:** Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi:** Thanks for the opportunity. Sir in terms of warheads do you mention about the quantity that the Katepalli plant 2500 units, 5000 units but can you just repeat that?
- T V Chowdary:** These are the licensed quantities per head is 2500 units in blast type warhead, there are different types of warheads, three different types so blast warhead is 2500 and fragmentation warhead is 5000 and shaped charge warhead is 2500 units.
- Dixit Doshi:** There was some 4 lakh unit also?
- T V Chowdary:** Electronic fuses.
- Dixit Doshi:** So these are in terms of units so let us say optimum utilization what kind of revenue this all products can generate?
- T V Chowdary:** These all names but does not give what is the size, it only puts in one kind of classification, but warheads can be of 1 kg or 10 kg or half kg, grams also so we cannot give a figure for that.

- Dixit Doshi:** Let us say these products are they currently imported by the army or these are already manufactured by some other company in India and what could be the opportunity size let us say whether we get the order or not but what could be the opportunity size?
- T V Chowdary:** In olden days missiles they themselves were getting imported so warhead is part of a missile so few rockets which were being made in India, those rockets and warheads and old conventional warheads are being made by ordnance factories and others, but all the new missiles, which are introduced that is MRSAM, Astra, BrahMos, all these things now like we said that we are making propellant each rocket motor also needs a warhead and also needs some fuse so that is the opportunity.
- Dixit Doshi:** Can you just quantify in terms of rupees opportunity side?
- T V Chowdary:** Like I mentioned the sizes and all those vary so we cannot really say that in terms of rupees, it is very early to say any number on that.
- Dixit Doshi:** Okay, secondly Sir in terms of explosive and also in terms of defence what kind of order book we can expect in H2, is there are some we already have tendered or we are participating in any tender what kind of fresh order inflow we are expecting in H2 in both the segments?
- T V Chowdary:** At present it is an ongoing process tenders and participating and all those, yes several RFPs and tenders are in line in which we have participated and we may get all of them or we may get some.
- C Subbarao:** At this point like we were discussing the chaffs and flares, which we already participated in the tender at any moment that should come, the value of that would be around Rs.34 Crores.
- Dixit Doshi:** Okay and is there any other where we are already L1?
- T V Chowdary:** Astra is another missile where we are not only L1 right now we are the single supplier for it and BDL is the integration agency, BDL has already negotiated the price with us and it is in the process of ordering. Similarly, MRSAM also we already have the order, they have requested us whether we can have the same terms and conditions whether we can double the quantity so these are going on and there is a new one which is coming that is vertical launch SRSAM where again we are the only provider of propellants and all those so that is one thing actively going on and PJ-10 that is BrahMos. BrahMos now the trial production is



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going on at our Katepally unit, once the trial production is completed then it is going to be regularized and it will get converted into orders.

Dixit Doshi: Okay and in Katepally plant you also mentioned that assembly of rocket has started even the trial production of HMX and RDX has been completed so any tender going on for these products, also any opportunities in the near future?

T V Chowdary: Yes as far as rocket assembly is concerned as like we have already informed earlier we are holding orders from Israel, Israel Aerospace Industries, five rockets....

Dixit Doshi: Yes, but that was quite small orders, so anything significant we are expecting rocket or HMX, RDX side?

T V Chowdary: HMX, RDX alone is not the thing, it is the warheads, which we are going to make with HMX, RDX they will be used in the assembly and rockets and missiles yes the new rockets, which are being introduced the government is seriously thinking of going for integration to the agencies, which have already worked in the explosives and are aware of handling explosives and hard integration.

Dixit Doshi: Okay and now that we have already completed the half year and you are saying that things are coming back to normal so any guidance in terms of what kind of revenue we can generate this year FY2021 or even FY2022?

C Subbarao: Our target is something like Rs.200 Crores for full year but let us see whether depends upon some of the FIMs and all that, but our target is 200 this year.

Dixit Doshi: This year anything broadly on next year?

C Subbarao: Let us see that one.

Dixit Doshi: If I see our first six months sales is around Rs.68 Crores and our receivables are also almost kind of Rs.62 Crores so how is the situation in terms of payments are we getting it on time or are we getting it now from the government and similar with that in continuation to that our short-term borrowing is already Rs.57 Crores so because of this delay in the receivables are we expecting some more buildup in the short-term loans can that increase?

C Subbarao: That may remain more or less same because we are hoping to collect some of the receivables, in October already we have received good amount and few more amounts are

expected in a balance of this month or early November. In terms of the total utilization you are right because more receivables are outstanding we had to borrow higher amount, we were actually discussing that point how to reduce the borrowing and reduce the finance cost.

Dixit Doshi: One last question so we took moratorium during the last six months so now that our moratorium ended on August 31, 2020 so are we back to the normal payment or are we planning for any restructuring of orders?

C Subbarao: I think it will go, repayment will start only we put a word to them if basically the term loan, which is there with HDFC bank so we requested them if they can give some more leeway time but they are yet to answer on that.

Dixit Doshi: Okay that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of N K Arora, Individual Investor. Please go ahead.

N K Arora: My first question is Sir we have all the capability to produce warheads or will require some technology assistance?

T V Chowdary: We have capability for producing the warhead but like each warhead is specific to a particular missile so there we also need some input specific to that missile and all those to produce otherwise the manufacturing facility, equipment process and all those are, we are quite conversant.

N K Arora: Secondly Sir like warheads, which are used in missiles who has the order for these warheads like BDL or the defence industry?

T V Chowdary: BDL. Defence does not directly take warhead, the warhead goes into assembly of the missile, right now BDL is the only integrating agency, which is integrating missiles, now in future I think many other people are planning to enter and we are also receiving a lot of queries.

N K Arora: Thirdly Sir we have received all the licenses to produce warheads or some other licenses are also required?



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- T V Chowdary:** No we have received all the licenses, you require manufacturing license, you require storage license, you require sale license, so we have all of them.
- N K Arora:** Secondly Sir ISRO is again starting the supply from next month onwards, so as they are starting the small satellite launch vehicle also so anything especially which has come to the space front from the company side?
- T V Chowdary:** Like I have mentioned earlier we have an order for producing strap-on motors for PSLV, now that activity also was suspended during the lockdown period, but it has started, now they are not able to visit, but regular videoconferences are taking place and then we are exchanging the reports and all those and now we got clearance for casting. There is a process where step-by-step they give clearance, now they given clearance for full-scale motor casting and order also issued by ISRO so before December I think first motor second motor rather first motor we have already produced second motor will complete in December and another two if everything goes well then in this current financial year.
- N K Arora:** There was some piece of land to be allotted to your propellant plant any progress on that front Sir?
- T V Chowdary:** The land is identified; earlier land which was allotted was found not suitable for our purpose so we went back and then requested for a different location, now the land is identified and it is earmarked for us, surveys and reports and all completely submitted, so now government has asked Commissioner of Industries to get into it and then expedite the allotment process it is going on because there are so many steps in reaching the government process.
- N K Arora:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Hardik Jain from ISJ Securities. Please go ahead.
- Hardik Jain:** Sir, most of my questions are answered and I just have one question. You said that we will be supplying this one strap-on motor before December and the two other by end of March, so how big is the value for three motors that we will supply in this year, how much revenue can be booked from it this year?
- T V Chowdary:** Revenue is a confidential figure where we do not want to declare that because we win all these orders in competition.



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- Hardik Jain:** Okay and we are also doing some Akash propellant so what is the size of this order the propellant that we are doing for Akash?
- T V Chowdary:** Earlier we have completed as you are all aware we have done more than 2500 numbers now the BDL has completed their order what they have to supply, now their next order is in the pipeline so during the process they have released order for one lot of booster grains and two lots of sustainer grains so which will be around 60 and 120.
- Hardik Jain:** In terms of value how big this opportunity can be in the present future also will they supply this material for Akash?
- T V Chowdary:** Again this is sensitive information.
- Hardik Jain:** Okay that is it from my side.
- Moderator:** Thank you. The next question is from the line of Tejas Garg from Counter Cyclical Investments. Please go ahead.
- Tejas Garg:** Sir recently Solar industries got order of over Rs.400 Crores to supply 1 million pieces of multimode hand grenade so I understand that we were also manufacturing hand grenade so did we participate in this bid?
- T V Chowdary:** We do not produce hand grenades what we call hand grenades are mob control devices used for tear gas and oleoresin gas like chilli bombs kind of things not the grenades what Solar industries is going to supply, so we consciously did not participate on that for safety and security reasons.
- Tejas Garg:** Now majority of our revenue is coming from defence sector, but still our operating margins have not increased in fact around 8-10 years back our operating margins used to be around 20% when predominantly we were explosives and basically detonator company and now even though we have been able to transition to defence sector contributing the majority of our revenues, but why our margins are not increasing?
- C Subbarao:** 8 to 10 years back all the detonators and other products were not in this much competition that is why over the period of time we thought let us focus more on the defence products, but to your question of current why it is still low, still the topline shall be a little more higher to absorb the fixed cost.

- T V Chowdary:** If you look at our past three or four years balance sheet you will see that it was only from 20%, 25% was the defence contribution and now slowly it is changing, now it is reaching a level of 50%, so it is not that we have completely switched over, it is not a overnight process, the defence industry it has its own gestation period.
- Tejas Garg:** Like we have Rs.220 Crores worth of defence order, is there a schedule to supply this or as soon as we are able to supply the government, basically our customer is ready to accept the deliveries?
- T V Chowdary:** The schedule is not preventing us from supplies, but there is a deadline before this deadline you have to complete the deliveries, but it does not fully depend on our hands because they have to issue free issue materials FIMs they are called, so we are high energy people, we make energetic material whereas missile contains a lot of hardware, metal components and all those which are issued to us by our customer and when their vendor delays the supply of these hardwares, so it gets delayed then what happens then we request that because of you could not supply we request for extension of delivery periods, so they extend that is the ongoing process. Akash is there where there was no hardware and we could produce in full and then supply 2200 numbers.
- Tejas Garg:** Basically this Rs.220 Crores worth of defence orders broadly by when is this executable like in the next one year, two year by when we will deliver this Rs.220 Crores?
- T V Chowdary:** Except the service contract what we have with ISRO which is a long term contract all others are deliverable in one year period.
- Tejas Garg:** Over the next four quarters we should be basically by and large executing around Rs.55 Crores worth of defence orders per quarter broadly speaking?
- C SubbaRao:** Target like already discussed, but if FIMs do not come in time and all that.
- T V Chowdary:** Some others can overflow from this quarter to other quarter or some other quarter to this quarter that can happen, but yes broadly what you said is correct.
- C SubbaRao:** Let us not go purely by some number divided by some quarter that is difficult to answer those kind of questions.
- Tejas Garg:** From Q3 onwards Sir what kind of quarterly run rate per quarter do you expect as far as topline is concerned?



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- C SubbaRao:** Again you are asking the same question like we already told our target for the full year is about Rs.200 Crores, so let us see that first and then let us go for balance of the period.
- Tejas Garg:** Okay, best of luck to you Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Anurag Patel from Roha Asset Managers. Please go ahead.
- Anurag Patel:** Thank you for the opportunity. Can you please elaborate a little more on this new offset policy, how it will be affecting overall industry dynamic?
- T V Chowdary:** It is not new offset policy rather it is new defence acquisition policy you mean that?
- Anurag Patel:** Yes Sir.
- T V Chowdary:** The basic idea behind it and the thing is to bring impetus to defence industry by increasing the Indian content and also by declaring 101 number of items as ban for import and then encouraging the foreign investments by increasing it to 74% from 49%, so purpose of all this is to because even though lot of measures are taken by governments, if you see the past four, five years, there is not much, so now they are trying to push it further, so that it will attract more and more, it will become more attractive.
- Anurag Patel:** Is it possible to quantify what kind of opportunity it can create for us or overall industry incremental opportunity?
- T V Chowdary:** No, I do not think because this opportunity is not just for our business, it has so many things like hardware, tanks, aircrafts, submarine ships, guns, so many things are there in it, so those are all not familiar with ourselves high energy materials, ammunition, rockets, missiles and all those things.
- Anurag Patel:** Recently government has test fired almost 12 missiles, so what kind of opportunity it can create for us?
- T V Chowdary:** Like I have mentioned we are the only providers of propellant in several of these missiles, which have been tested by the government, so the moment they get productionized and they come to assembly line, so definitely first at least 500 to 1000 numbers only we will be supplying, we do not know by that time anybody can come or not, but that is an opportunity like already the few of them are now on the production line that is MRSAM, Astra, I

mentioned you and LRSAM, after Akash these are the next missiles which are being productionized by BDL, so other than this there are other still in DRDO qualification trials are going on, those are the next ones which will come and BrahMos yes of course BrahMos is another missile, which is already now in usage and launch.

Anurag Patel: What was the capex number for FY2021?

C SubbaRao: It will be Rs.65 Crores to Rs.70 Crores.

Anurag Patel: That is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Thanks a lot for taking my question. Sir first question would be regarding industry as the previous analyst also asked, so there are 12 odd missiles, which are under various types of stages maybe production stage or trial stage, so how does the production of these in missiles change the dynamics of the industry and second question is related to our company, so these missiles would be procured on tendering basis, so how do we people bid for it and how would our margins increase going forward?

T V Chowdary: Like we have mentioned out of this 12, I would not name them now, but at least six of them are loaded with our propellant, they are qualified with only our propellant Premiere Explosives propellant. All these days they are in the R&D mode at DRDO qualification and all those, now two of them have come to production like I mentioned, as the balance come into production definitely we are the people who are going to be benefitted and industry also, all the other vendors who are working with DRDO, now they will get the opportunity to supply for production, it is a big boost.

Pankaj Bobade: Generally when some order would be made, so how big would be the order, there are certain what you call regiments of these missiles, so how big can this order book be, I just want the colour, I would not want the exact number?

T V Chowdary: Our experience with Akash and other MRSAM, they start with a two digit figure 70, 80 numbers, 60 numbers then the next step they go to 150 to 200 and the next they go to 400 to 500 like that, it is incremental increase they do it, our air force and army also places order like that and they also do it like that.



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- Pankaj Bobade:** So in value terms how the industry can benefit from these order books, so what can be the quantifiable order book for the industry as a whole?
- T V Chowdary:** No, that we are not ready to that information because industry as such there are many players in it hardware and all those and even our part of it also this is a sensitive information, price sensitive that is why we do not want to.
- Pankaj Bobade:** As these are tender based order books so going forward everybody would like to bag it and hence would bid for the lowest one, so how do we see our margins going forward?
- T V Chowdary:** Our industry as I have already mentioned we have the advantage of being in the niche area and then right now the single vendor for these missiles, the propellant, so it is more like we will be competing against ourselves only rather than competing with others.
- Pankaj Bobade:** Okay, do we see us going towards the peak margins, which we had seen a couple of years back?
- T V Chowdary:** We are hoping.
- Pankaj Bobade:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.
- Nitin Gandhi:** Thanks for taking my question. Can you give some colour on CWIP and some more details this almost Rs.66 Crores now?
- C Subbarao:** This is like we discussed in the earlier calls also, the project is at Katepally it is a greenfield project, total of 250 acres land is there and the facilities are being built for manufacture of different products one of them is solid propellants and rocket assembly, others technically Mr. Chowdary will explain that better.
- T V Chowdary:** Katepally we have so many products, which we have already announced and you are aware where we bought all the licenses and another product, which does not require license but we got into is the thermal insulation, which is again addition to our products, which last year we have announced, now that is another area of capital investment, which we have invested and this will appear in this year and as on date we want to consolidate with whatever we have invested, but we never know because with the new requirement of ammunition and all

those things where we already have the license we are going to get licenses, there if need comes we may have to.

Nitin Gandhi: What is the additional amount which you have planned as on date and that is yet to be spent and when is the Rs.66 Crores is likely ...

T V Chowdary: It depends on when the orders come or when the RFPs come from MoD, so as on date we have already invested that is what Mr. Subbarao has told, in the current financial year that is the thing.

Nitin Gandhi: Any amount which is yet to be spent in one year which we have planned?

C Subbarao: If you are asking me about one year there will be some equipment like balancing equipment or capital maintenance those kind of things are there, but there is no major project, which we have conceived except what may happen at SHAR where we are discussing about taking the land, so that is a different question and that maybe too early to quantify any number in terms of rupees let us see that, but other than that what will happen is only normal maintenance capex.

Nitin Gandhi: How much that will be Sir?

C Subbarao: No answer for that.

Nitin Gandhi: As far as thermal insulation is concerned where the license is not required can you give some more details?

T V Chowdary: Thermal insulation is a material, which is used for lining of rocket motors, rocket motor is made of metal and when such propellant is burning inside the rocket motor with the heat, the heat can even melt the metal casing or heat can escape so special type of rubber is used as an insulation metal, it is lined inside the rocket motor, which withstands high temperature and very low conductivity, so inside the rocket motor it is something like 2000 to 3500 degree centigrade where is outside it will not allow it to go beyond 60 to 70 degrees max, 50 to 70 degrees, so there is a special thing which is earlier, it is not that we are first time making there are other vendors only few, so now we have established the facility because many times like I was mentioning our free issue materials were getting delayed because these activities are getting delayed, our free issue material from our customer was getting delayed, now with this in place now we ourselves are able to do thermal insulation lining and even for ISRO also now big rocket motors and also Agni scale big rocket motors we are



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already started doing, so this is increasing compared to last year, now further we have gone ahead.

- Nitin Gandhi:** As far as explosive is concerned order book is generally executed within what time?
- C Subbarao:** The latest order which we got and reported as Rs.83 Crores is for two years.
- Nitin Gandhi:** Out of one month is Rs.83 Crores is included right?
- C Subbarao:** Yes.
- Nitin Gandhi:** Balance is next H2 it will get executed correct?
- C Subbarao:** Yes.
- Nitin Gandhi:** Service contract execution period timeframe is how much?
- C Subbarao:** Balance is about eight-and-a-half years.
- T V Chowdary:** At Jagdalpur we have already completed, they requested us to extend it by another six months then another six months now it is totally one year extension because they have not yet completed the formalities of tendering.
- Nitin Gandhi:** Thank you very much.
- Moderator:** Thank you. The next question is a followup question from the line of Milan Shah from Urmil Research. Please go ahead.
- Milan Shah:** R&D expenditure has increased from 0.32% to 0.48% in 2019, is it increasing every year, or we are going to make any new research and development?
- T V Chowdary:** We have a very active R&D, so we keep developing the products like you are aware that chaffs and flares, flare is our in-house development product and we have with this design and development of Israeli rocket motors in-house then like I mentioned the propellant made for all these six new kind of missiles that is all Premiere developed product, so the R&D activity keeps going, so expenditure is build on it.
- Milan Shah:** BF Premier Energy Systems do you have created with Bharat Forge group?



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- T V Chowdary:** Yes, company is still existing, but we are yet to find a common business where we can participate together.
- Milan Shah:** Okay and Sir Israel aerospace is a government entity or a private Indian company in Israel?
- T V Chowdary:** It is private company, but with some government participation.
- Milan Shah:** Okay Sir, I only asked because we are very proud that Indian company is doing work for Israel company otherwise all Israel company working world over
- T V Chowdary:** Thank you very much for your compliment.
- Milan Shah:** Thank you Sir from my side.
- Moderator:** Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi:** Thanks for the opportunity again. Sir first question in terms of margin, so can you just give a breakup of margin for defence and explosives separately and if I see this recent Rs.84 Crores order from Singareni do they have a better margin compared to what we used to do in last couple of years in explosive division?
- C Subbarao:** Our expenses are actually for the company as a whole it is difficult to distinguish between because facilities are common, and utilization is common, so it is difficult to differentiate between the two, regarding the recent order about Singareni, which you are asking again it is a very competitive bid.
- T V Chowdary:** Prices are only getting lowered not increasing.
- Dixit Doshi:** In last couple of years the margins were quite low in explosive division, so is it at that level or even worse than that level the new order?
- T V Chowdary:** Even worse.
- Dixit Doshi:** Okay and Sir my second question is a broad question, so I understand in most of our products you do not like to mention about the price for product and do not give the absolute number in terms of what kind of the opportunity that product have, so it is sometime getting difficult for us to gauge the potential of Premiere Explosive, so let us say even in next three

to five years we have multiple products 15, 20 products RDX, HMX for ISRO, strap-on motor, propellant, many other products chaffs and flares, so in terms of opportunities let us say broadly in three to five years what kind of revenue we can generate on a yearly basis from a defence segment or which of these products individually you have the potential to do Rs.50 Crores to Rs.100 Crores kind of revenue or it is unlikely that these products can do Rs.100 Crores, single product can do Rs.100 Crores topline in defence?

C Subbarao:

That is again certainly difficult question because what are the new products that we will get and all that every year all these products may not be there that is why it is getting difficult. Of course about confidentiality also is there, but if you are asking like very long term thing, like earlier we are thinking like going to two years back it was like Rs.250 Crores, so at that time we were telling like it will go to Rs.300 Crores, Rs.400 Crores plus kind of targets that will remain still the reachable target.

T V Chowdary:

All products have got the potential of reaching that standalone Rs.100 Crores what you said, but the question is these products are not regular consumables like explosives used in the coal industry or something like that, these are bought on need basis by the army and all those, so we cannot really tell that which product is, that is why we have multiple products and we can keep on catering.

Dixit Doshi:

Just a followup on that so let us say is my understanding right that these products do have a size of doing Rs.100 Crores individually, but the problem is that in some year we have order from chaffs and flares and next year there was no chaffs and flares award so because of that we remain in the rangebound sale of defence segment?

C Subbarao:

That is the reality suddenly something may come and that may not be expected, this is what I mentioned flare and chaffs, which is there maybe six months back we were not expecting, but because of China and all that they floated the tender and then quickly they give a very tight schedule also, these are the things which are not really predictable.

Dixit Doshi:

Okay, that is it from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Anil Udar from Renuka Investments. Please go ahead.

Anil Udar:

Good afternoon Sir. Thank you for taking the questions. The first question which I would like to ask you is in the discussion we had right now you said you got licenses for warhead, my question to you is how fast can we start manufacturing at our Katepally plant and what

can be the demand in the sense as you said for the blast warhead 2500 license quantity can we take our capacity to that or it will take a long time for us to do so?

T V Chowdary: The manufacturing facility is ready, already we are ready with the manufacturing like I mentioned trial production and all we started, now once we have the facility the customer has to be told that we are ready with the facility, see unlike these other products where you are ready with the products and then you can launch defence you have to qualify, so it takes time.

Anil Udar: Okay, but how fast can we think that you can get the order from the defence department or DRDO, can you shed some light on it?

T V Chowdary: We are interacting with them and we are informing everybody that we are ready, we have the license for manufacturing, we have plant is ready and all those and everybody has shown interest and hoping that it is before the end of this year we will get into some production of warheads.

Anil Udar: It can be the Make in India story, which our Prime Minister is saying this can be the biggest and best Make in India story that we can tell to the world also if I am right because manufacturing orders still now was the part of the government scenario itself, now it is coming to the private sector am I right?

T V Chowdary: Yes.

Anil Udar: My second question to you Sir, as per Mr. Sivan of ISRO draft with policy has been presented in the next few days also?

T V Chowdary: No it is only draft.

Anil Udar: Yes, but it allows private players in the satellite launching and all other allied activities and basically what we have seen is all the startups are in the designing of boosters and rocket motors and launch vehicle and I think we are the only company in the private sector manufacturing boosters and rocket motors because explosive is a very niche area, how big can this opportunity be if this sector opens up for private because we are the only people to do the handling of explosives and manufacturing of the boosters you said given one booster in the month of December and two by the end of March, so if this small space launch vehicle thing that is 200 kg satellite would be launched, so how big can be the opportunity for our company can you shed some light on it Sir?

- T V Chowdary:** Our knowledge is also same as your knowledge.. What ISRO has announced and Dr. Sivan has given the figures and all those, we do not have any other details or our own figures or inputs on that.
- Anil Udar:** But there are certain some private startups who are into designing of boosters and motors have they approached us for manufacturing of the product?
- T V Chowdary:** Yes, they have approached us, and they presented their needs and all those, discussions are going on.
- Anil Udar:** You can find a square feet room having been given a market capitalization of Rs.200 Crores and whereas we as per explosive manufacturing company is undervalued compared to them so basically what I would want to understand is how can this opportunity be like what they are saying is, Antriksh is launching about 40 vehicles per year, so if we get the order from manufacturing of this motor how big can that opportunity be?
- T V Chowdary:** One thing I think we should understand is ISRO if you look at what is happening for past six months there is a total disturbance of their programs and plans and all those because of COVID, so what happens and all those are not known.. The opportunities are coming and it is open to individuals to market their satellites and all those that is what Mr. Sivan also told, private companies can market internationally and then do it and like you rightly said yes they are operating from a 500 square feet room whereas we have all the manufacturing facility so they have to come to us and they are going to depend on the existing facilities rather than putting up the facilities.
- Anil Udar:** They have been taking license for an exclusive product for five to six years, so I do not think so anybody was venturing into that they will come to you and get the job work done from you for the manufacturing of the motor am I right?
- T V Chowdary:** Yes, so far it is.
- Anil Udar:** Thank you very much Sir and all the best for designing, manufacturing of Akash and many other missiles. Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Hardik Jain from ISJ Securities. Please go ahead.



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Hardik Jain: We are doing some export orders for Israel aerospace and also for Turkey, so any further development there are we talking to them in the next leg of orders, so if you can give some details?

T V Chowdary: As far as Israel Aerospace Industry is concerned like we have already mentioned we have completed the development and demonstration of two products, two orders, third one is going on, fourth and fifth are in the process of development and demonstration, so first two numbers, the production orders are being processed and worked out, but because they are not yet delivered, because of this disturbance and logistics. They have to do the dynamic testing and then they will clear the production orders for them. So we are hoping that once this is done, now earlier they were supposed to be shipped to Israel, but now because of various other problems, because delivery is in their scope, we deliver at our factory, so they have to carry and all those, there are problems in that, now they are working on air shipping.

Hardik Jain: You are saying that first two orders although development and demonstration are completed we could not ship it due to COVID, but we will be shipping it now right?

T V Chowdary: Anytime if may happen coming one week to 10 days.

Hardik Jain: Okay, so first two orders the revenue will be booked this year before March?

T V Chowdary: Yes.

Hardik Jain: Then we have three more orders for which demonstrations are going on?

T V Chowdary: Yes, third also almost through, it is ready, we are waiting for SCOMET license for the third one, first two we got, third one we are waiting for the license, once we get the license that also can go.

Hardik Jain: I assume these orders are like on a test basis, Israel aerospace has placed with us and larger opportunity is there?

T V Chowdary: Design and development orders, so to their requirements we have designed also and demonstrate, develop and then they get converted into production orders, but they are paying for all the development and demonstration whatever is thereof.

Hardik Jain: We have been doing some orders for Turkey as well?



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- T V Chowdary:** Turkey, we have the order, but the government permissions are still not received, and we are not sure what is going to happen.
- Hardik Jain:** Thank you.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- C Subbarao:** Thank you all for the interest following the Premier Explosives quarterly results participation. We hope we will do much better in the coming quarters. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Premier Explosives Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.