

Premier Explosives - Ready to launch?

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26 - Mar - 17
Value Pickr Meet



Brief Introduction

Explosives Company

1. Low margin explosives for mining industry (8-9%) [**70% Revenue**]

-Rdx Detonators

2. High Margin Propellants and Defence Ammunition (11-13%) [**30% Revenue**]
 - Solid Propellants for Long Range Surface to Air Missiles (New)
 - Short Range
 - Flares and Chaffs
 - Booster Grain for Akash Missile
 - Solid Propellants for Space Launch Vehicles for ISRO



1. Key Triggers

- **Low to High Margin Focus** - Focus shifting from low margin explosives to Defence ammunition
- **Green Shoots for Orderbook** - 270 crs order book, recently got 33 crores from Defence, Another order from ISRO For Space Launch Vehicles.
- **Super Product Profile** - Last 2 years new products have been approved
- **Tie up with Bharat Forge** - Joint Venture with Bharat Forge as it will take up new defence orders



2. Financials

- **Sales Growth - 3 Yrs**
3 Yrs rev growth of 19%, crossed 200 crore this year, TTM Growth - 26%
- **Ebit Growth** - Flattish due to product mix change. TTM is
- **Debt / Equity** - from 1.7 to 0.98
- **Favorable Asset TO** - 3.91
- **Debtor Days** - 83, increased from 57 days to 83



1. Management

- **Small Equity scaling without dilution** No unnecessary dilution - equity base of 8.6 crores
- **Chairman is a Technocrat in Heavy Materials** - Mr. A N Gupta, Chairman of Explosives council by GOI. Various awards for contributions
- **Focused on New business** - Focussed on high margin, solid propellants business.
- **Express will to create huge shareholder value** - Time and again in every annual report there is a strong urge to create huge shareholder value through innovation.
- **Bold enough to take tough business decisions** - move towards NHN detonators Vs. Lead Detonators - makes manufacturing many times safer



Ammunition Consumables

INDUSTRIAL LICENSES RECEIVED FROM DIPP

| Product | Award Date |
|--|------------|
| Site Mixed Explosives | 17-Jun-16 |
| Military fuses of all types including filling and assembling | 01-Jul-15 |
| Munition 20 mm and above including filling and assembling | 01-Jul-15 |
| War heads of all types including filling and assembling | 01-Jul-15 |
| Flexible Liner shape charge | 11-Jun-15 |
| Explosives Reacting Armour | 11-Jun-15 |
| Single Base Propellant | 11-Jun-15 |
| Ammunition of 40mm and above calibre | 12-May-15 |
| Rockets and Missiles | 12-May-15 |
| Mines related to Defence | 12-May-15 |
| Bombs related to Defence | 12-May-15 |
| Cartridge Explosives | 12-May-15 |
| Site Mixed Explosives | 01-May-15 |
| Mob Dispersion devices | 20-Apr-15 |



Valuation

- **Price Earnings to Growth** : EPS growth @74% based on TTM, P/E of 30
- **Return ratios started to look up** - Earlier 20%+ then came down now inched up
- **Variability in margins** - The margins seem to have improved
- **Revenue growth momentum maintained** - 220 crore and next year 270 crores

FINANCIAL MODEL

ICRA REPORT OF FEBRUARY 2017.

Reasons to Buy

- Offset Market - 75Bn\$ (\$2.5 Bn to open up for PEL)
- Tie up with Bharat Forge for exports of ammunition
- Consumable Ammunition business for Indian Army, Navy and Airforce

Due Dilligence not done

- Not visited the site or factory
- Not checked upon the background of auditors
- Not met the management in person - only through conference calls.