



“Premier Explosives Limited Q2 FY16 Earnings
Conference Call”

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SOLUTIONS



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Moderator: Good Day, Ladies and Gentlemen and Welcome to the Premier Explosives Limited Q2 FY16 Earnings Conference Call hosted by S-Ancial Global Solution. 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 this conference call, please signal an operator by entering ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Saurabh Ambaselkar from S-Ancial Global Solutions. Thank you and over to you, sir

Saurabh Ambaselkar: Thank you Malika. I, on behalf of S-Ancial Global Solutions welcome you to Premier Explosives Industries Q2 FY16 Conference Call. We have with us Dr. A.N. Gupta – CMD and Mr. C. Subba Rao– CFO of the company. I now hand over the call to Dr. A.N. Gupta. Over to you, sir.

A.N. Gupta: Thank you. Good afternoon everyone. I welcome everyone to the second quarter results conference call of Premier Explosives Limited.

The net sales for the September quarter stood at INR404.4 million, an increase of 14.6% year-on-year. The company's operating profit for the quarter was at INR28.4 million, performance was impacted by higher raw material cost and low selling prices from both Coal India Limited and also trade. The operating margin during the quarter was at 7.0%. The profit before exceptional items and tax was at INR14.2 million, there was an exception item of income from sale of land of INR8.3 million. The PAT including income from exceptional item stood at INR18.9 million registering a growth of 8% year-on-year.

In second quarter the explosives business grew by 9.6% year-on-year, defense products grew by 65.1% year-on-year. The current order book of the company stands at about INR1,705 million for explosive and INR840 million for defense products and INR355 million for services totaling to INR2,900 million.

I now open the call for discussions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Siddharth Purohit from Sushil Finance. Please go ahead.

Siddharth Purohit: Sir just, could you elaborate the results were a little lower, I mean sales growth as well as hit in the margins, I mean more details on what is the reason behind sales realisation or maybe cost push, what is the reason for that?

A.N. Gupta: See, basically the prices of Coal India Limited as I told in the first quarter also had been lower than the previous year, particularly in the subsidiary at Singrauli that is Northern Coal Fields



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Limited, the prices were about 20% lower than the previous year. And as you are aware, every cost keeps on increasing, the labor, the power, fortunately for us the diesel prices have not been growing, so that is a saving grace but overall the margins had been hit. Apart from that, the ammonium nitrate prices went up initially by more than Rs.2,500 but we have tried to import the material from other countries and have been able to sustain our production and maintain a marginal profit.

Siddharth Purohit: What is the quantum of rise in ammonium nitrate prices you said sir, how much percentage it has gone up?

A.N. Gupta: It went up by almost Rs.2,500 per ton and the price there were almost Rs.2,000 per ton less than the previous year.

Siddharth Purohit: In the realization front?

A.N. Gupta: The realization front. So there was a double hit, selling price went down and the raw material prices went up. Now we are trying to marginalize the cost of ammonium nitrate increase by importing ammonium nitrate, so first consignment has already come and which is in use in this current month and we are expecting the second consignment of 500 tons to reach probably by this weekend and we have also placed another order for 500 tons, another supplier so we are trying to equate the thing and get back to better margins.

Siddharth Purohit: So the imported materials the landed cost is lower than the local prices you are saying sir?

A.N. Gupta: Yes, they are lower than that.

Siddharth Purohit: And can you quantify how much percentage it could be lower in terms of say domestic versus import?

A.N. Gupta: There are two sources we are trying, one source will be about Rs.2,000 lower so that means we will be able to neutralize the cost reduction in Singrauli and the other source is about Rs.1,000 lower, so we are trying to maximize the cheaper raw material. But it takes time before you could streamline because now a days the bulk import is not allowed, we have to import in containers and it takes time, so there are certain restrictions on importation, so we have to import multiple consignments. And I think by next month it will be streamlined, you will have a mix of imported and indigenous material more comfortably.

Siddharth Purohit: So we might be carrying some current raw material say in terms of already inventory what we have bought from the domestic market and the balance we will be importing for coming quarters you are saying?

A.N. Gupta: That's right.



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- C. Subba Rao:** Domestic purchase will still continue because we cannot suddenly stop entire domestic supply, otherwise the domestic suppliers will not give raw material later on, so we have to make a balance.
- A.N. Gupta:** We got a higher order from Coal India Limited this year, we require more ammonium nitrate as it is, so our current procurement from the domestic suppliers remains, it is only augmented by the importers.
- Siddharth Purohit:** Sir, can you share the production and sales volume for this quarter?
- C. Subba Rao:** The bulk explosives was be around 11,000 tons, then we have the other products package explosives some 1,630 tons and the detonators, the defence anyway we cannot reveal those numbers.
- Siddharth Purohit:** Yes, that's fair enough; you have already given the combined number. And sir production volume, is it available for the corresponding quarter last year?
- C. Subba Rao:** Number right away is not there but it is at least 15% more than last year.
- Siddharth Purohit:** It has gone up 15% combined?
- C. Subba Rao:** Yes.
- A.N. Gupta:** 14.6% to be precise.
- Moderator:** Thank you. Our next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.
- Jagdish Bhanushali:** Could I get the order book what we had last year, the same quarter?
- C. Subba Rao:** No, at that time actually we were not making but it would be certainly lower than this because defense orders have come recently good number, again, Coal India order may be at that time we would have got for one year production only but now it is two years further. But overall, it will be much higher this quarter.
- A.N. Gupta:** It is a higher quantity also, last year explosives was only 12,000 tons, current year it is 23,000 tons so correspondingly it will be higher, that's why I said that whatever we are procuring raw material from the indigenous sources that remains and we are augmenting imported raw material and trying to average out the pressure also.
- Jagdish Bhanushali:** And could I get the breakup of the order book, I think just you gave it but I missed out.
- A.N. Gupta:** The total order book?



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- Jagdish Bhanushali:** Yes.
- A.N. Gupta:** Explosives we have about 170 crores, defense about 84 crores and services 35.5 crores, total 290 crores.
- Moderator:** Thank you. Our next question is from the line of Krishna Kumar from Sundaram Mutual. Please go ahead.
- Krishna Kumar:** Sir, would you comment about progress on the defense orders, I think Pinaka Mach II you talked about execution happening in the current quarter and next, so some of these defence revenues, is the execution happening at the pace that I heard or is there any delay sir in execution?
- A.N. Gupta:** Pinaka II we received order for 31 numbers and very happy to inform you that the first three numbers which are supposed to be a trial quantity has been already produced and they have been dispatched to HEMRL and it will be tested probably on 16th that is coming Monday and two of them would be tested at our own factory and that date has been not confirmed because they will be coming from Pune to supervise and witness the testing, but likely to be on 19th. After the first three are fired, then they will give us the permission to make another three, these are that six numbers for technology transfer and next three again one will be tested at Pune and two will be tested at our factory, one will be at ambient that is the normal temperature and in the first three lot one will be at minus 30 degrees temperature and in the second lot one will be at plus 50 degrees temperature. After these six are tested, and we have to complete the order before end of December so it will be completed, we are planning to complete it between 15th to 20th of December.
- Krishna Kumar:** The entire order of Pinaka will be completed this quarter?
- A.N. Gupta:** Yes, the 31 numbers, it is a trial order of 31 numbers it will be completed before end of December let's say, because we produce and complete it then it will be transported to Pune and delivered, so it will all be done before end of December and we are fully geared up for that.
- Krishna Kumar:** Sir in terms of overall revenue, from execution perspective if you look the first half you have done about gross sales of 85 crores, is it possible to give some broad split up from explosives, services and defense services, is it possible to give some color?
- A.N. Gupta:** Yes. This is quarterly review, we have sort of kept it as second quarter.
- Krishna Kumar:** You can give second quarter also sir.
- A.N. Gupta:** Second quarter is, commercial explosives 29.1 crores, defense products is 7.1 crores, services is 3.9 crores and wind power is 0.17 crores, that makes it as 40.3 crores roughly. And the first



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half was explosives 55.62 crores, defense 14.15 crores and services 7.8 crores and wind power 0.24 crores.

Krishna Kumar: And do you expect this pattern to kind of continue for the year given the order mix that we have, would we have a similar mix of revenue sir for the full year also?

A.N. Gupta: No, as you know third quarter and fourth quarter is always very good for us because most of the infrastructure and coal mining and other activities are good after the rains are over, and it will pick up after Dipawali, so probably from tomorrow that is next week onwards it will pick up. And we got number of orders from BDL which are now getting better, they are geared up to produce more number Aakash so they had been taking a reduced quantity compared to the previous year, their own material moving to the armed forces, apart from that their own gearing up for the assembly of missiles, now they are taking little larger quantity, almost like 25% larger quantity so that should all add up to EBITDA revenue from Aakash and Pinaka II would be adding up to this and we are expecting some more orders for LR-SAM, MR-SAM and Astra missile, Astra missile finally is coming into production, I think you must have watched something on the TV, now it is going to be in production phase from probably January onwards, orders would be confirmed in January and then that is in the larger quantity, much larger quantity than others. And do you know, Astra is a beyond visible range air-to-air missile where we had no alternative so far and this has done very well in number of trials and government has given a clearance for procurement of those. And that is our own proprietary propellant, so we hope that the entire order will come to us.

Krishna Kumar: Here what can be the scope sir of this Astra, when after fourth quarter these order start tomorrow, what kind of annual business one can expect sir from this product?

A.N. Gupta: As you know I do not make estimates until unless thing is in my hand, but yes it will be a substantial as I hear and you would get this in the newspaper how many crores have been sanctioned for Astra and how many mortars have been ordered, but let it come because there are a lot of slips between the cup and the lip as far as ordnance missiles and other things are concerned, take a little longer time or less time, you cannot make a guess right now.

Krishna Kumar: And sir you have taken few licenses and got approvals in the last quarter, so is there any progress on further progress on commercialization, anything that you would like to tell us sir?

A.N. Gupta: Well, we have licenses for ammunition and we are discussing with various OEMs in Europe and Eastern Europe and something is likely to come through by December, so as soon as it comes in we will put it on the net and inform you all as far as ammunition is concerned. And there are other things also on the move, so they are in quite advance stage and probably you will have to wait for another one or two months and we are also eagerly waiting for something to happen and we will go ahead.



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- Krishna Kumar:** And sir just on profitability, so do we expect to see improvement in profit margin sir as we go along given that our ammonium nitrate supply is now under control, will we see further improvements in profit margins in that segment and overall as a company should we expect a better profit margin sir?
- A.N. Gupta:** Yes, I am very optimistic about it, maybe not so much from the traditional explosives but much more from our defense operations. So overall I am expecting that we will be able to retain that 10% to 11% operating margin in the whole year.
- Krishna Kumar:** And is there any major CAPEX to be incurred sir from whatever visibility you have on supply contracts coming through, is there a need to invest and say new facilities for capacity or for new products, is there any major CAPEX outline sir?
- A.N. Gupta:** Mr. Kumar certainly, all these things would be quite visible probably by end of December, by the end of calendar year and we are already making plans, already making calculations and all that and things would be more clear to us and I do not want to give a figure right now but yes we will require a substantial CAPEX which cannot be done from the internal accruals which we have been doing every year. So this certainly will require external borrowing or raising of the equity or, we are consulting various people, various experts in the area and we will certainly come out with this probably by end of next quarter.
- Moderator:** Thank you. Our next question is from the line of Siddharth Purohit from Sushil Finance. Please go ahead.
- Kartik Mehta:** Hi sir, this is Kartik Mehta calling off Siddharth Purohit. Sir my point is referring to your answer to the earlier person that you would be ending up the EBITDA margin of closer to 10% to 11% for the full year of FY16, in this case in the first half you are roughly standing at average EBITDA margin of 7.5%, so in order to match that 11% number for the full year the second half margin has to be substantially higher in the way to make it to 11%, so in that case your product mix and revenue mix has to move substantially in the favor of high margin defense products.
- A.N. Gupta:** That's exactly what I told Mr. Kumar.
- Kartik Mehta:** So essentially even in the last con-call when we had discussion you said that it was this year likely to end at the revenue of roughly 190-odd crores given the execution of the order books at the end of first quarter and we are roughly now standing at 80 crores, so we considering at least 110 crores of revenue in the second half with is much better EBITDA margins?
- A.N. Gupta:** Yes.



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- Kartik Mehta:** So that's what the clarification, because I thought that there some mathematical what I am missing something or not because that shows pretty high confidence from your end.
- A.N. Gupta:** You are right, but yes it looks to be little difficult task but we are working hard to get that and we are not changing the targets with that, if we do not achieve we do not achieve it marginally, no problem.
- Kartik Mehta:** Sir marginally is okay, but if you can even achieve it with 5%, 10% deviation it would be great achievement given first half numbers.
- A.N. Gupta:** Sure.
- Kartik Mehta:** And how has been progress on the enquiries front for the technological collaboration of the JVs for the licensing what we have received, you were saying that interest has been picking up on the back of licenses what you have got, so how is the progress over there?
- A.N. Gupta:** There is a good progress and we have made a number of visits abroad, people have come and seen our facilities and we are in final phase of negotiations and how to operate and all that in ammunition basically.
- Kartik Mehta:** So for that matter you also say that...
- A.N. Gupta:** Everything would be clear most probably by middle or end of December.
- Kartik Mehta:** So then you would also come out with a CAPEX plan as well?
- A.N. Gupta:** That's exactly.
- Kartik Mehta:** So for that matter you said last time that you are already sitting on the land bank of roughly 250 acre nearer to your existing facility, so where does this 250 acre cost sitting in the books in the balance sheet, does it reflect anywhere?
- C. Subba Rao:** It is part of land.
- A.N. Gupta:** It is part of the land assets, it you see the assets column in that chart.
- Kartik Mehta:** Yes, because there is not much bigger moment which has happened, so this 250 acre has been accumulated gradually over the period of last many years, is it correct or...?
- A.N. Gupta:** Yes, about three years, yes. You are right, you see when you want to get 240 or 250 acres of land you do not get it in one go, so you buy some 70, 80 acres at one time and then you find the other people coming around saying take my 2 acres as well, take 5, you know that sort of a thing, so we have to be patient and we have to keep on taking land whosoever is selling. We



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have over 245 acres or 250 acres and we still have an offer of another 20 acres, we are trying to bargain.

- Kartik Mehta:** So just to add, this land is nearer to the existing land or is it like...?
- A.N. Gupta:** As the crow flies it is about 4 kilometers away, but as per the road goes it is about adding I think 12 kilometers away.
- Kartik Mehta:** And sir in recent Times of India there was an article about Astra and you also referred that it is now getting ready, is it going to be inducted officially by 2016?
- A.N. Gupta:** I am quite sure, but until and unless it is inducted we cannot say. Right now Mr. Chaudhary, our Executive Director, is in the DRDL trying to find out what is the latest position.
- Kartik Mehta:** So in terms of fresh orders from the Defense segment, Astra could be one of the driving force or you are also sure about other segments like more number of Aakash and even Pinaka II?
- A.N. Gupta:** Yes, all of them, Pinaka II ultimately as per the news and all that would add up somewhere about 10,000 numbers per year in two to three years' time, so that is a very critical rocket, because Pinaka I has a limited range less than 30 kilometers and Pinaka II goes to plus 40 kilometers.
- Kartik Mehta:** So you said 10,000 PCs would be required by Indian Armed Force?
- A.N. Gupta:** Yes, about two to three years time, total.
- Kartik Mehta:** And how about Aakash, what could be the current quantity, any idea, and what would be the requirement?
- A.N. Gupta:** I won't be able to tell you.
- Kartik Mehta:** So the order enquiry or order book in the defense side should actually pick up considerably that's what you expect as of now?
- A.N. Gupta:** Yes, that's exactly.
- Moderator:** Thank you. Our next question is from the line of Kalpesh Gothi from Wallfort Financial. Please go ahead.
- Kalpesh Gothi:** Sir, can you give the update on the LRSAM missile going to be tested in October?
- A.N. Gupta:** Well, it will be tested during this month.



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- Kalpesh Gothi:** So it is yet not tested?
- A.N. Gupta:** No, it is yet not tested, it has already reached the destination and right now I think preparations must be going on, until and unless something happens, it will be tested within this month.
- Kalpesh Gothi:** After the successful test fire when we expect to start getting orders?
- A.N. Gupta:** Yes, we are already having some orders on hand and the first test has been very good, second test is expected to be during this month so I hope that it is also through and after that the third test will be conducted in India and then orders will flow, larger orders will flow both for LR-SAM and MR-SAM.
- Kalpesh Gothi:** And Astra already test fired, right successfully?
- A.N. Gupta:** Yes, a number of tests which have been conducted and a number of tests still are going on, but by the limited test or whatever test have been conducted so far I am giving you what I saw from TV and what we have discussed with the project director on the phone, but right now as I told you Mr. Chaudhary has gone to meet the project director and find out what exactly is the program so that we get prepared for it.
- Kalpesh Gothi:** And sir in first quarter concall you expect the Aakash missile order in second half?
- A.N. Gupta:** Aakash missile we have been supplying for last two years.
- Kalpesh Gothi:** For the new orders for the current year sir?
- A.N. Gupta:** Yes, we have completed the three orders and this is the fourth order which is going on right now.
- Kalpesh Gothi:** So we already bagged the order?
- A.N. Gupta:** Yes, we supply it for over last two years, I cannot tell you the quantity but yes I can tell you we bagged, this is third year of supplying to Aakash.
- Kalpesh Gothi:** Sir for FY17 we have so many, expect to get the order for the Astra of LRSAM and Pinaka II, so do we see the sharp jump in order book for the defense product?
- A.N. Gupta:** I think that's a common sense, it should be.
- Kalpesh Gothi:** And sir our order book of defense product is almost 85 crores. So for the second half how much we are going to execute?



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- A.N. Gupta:** Well, in the current year with 32.5 crores and the 50 crores would be sort of schedules will be in 2016 and 17, in the meantime we will get extra some other orders as you said and that goes on.
- Moderator:** Thank you. Our next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.
- Krishna Kumar:** Sir just on this extraordinary income on the land side and the VRS that you did in the last quarter, so is there any other labor VRS that is planned if at all and on the exceptional gain on land is there any other asset which probably will be monetized or can be monetized sir?
- A.N. Gupta:** See, this particular land about two acres was in the middle of a town nearby our factory and there was some threats coming in that there could be some people trying to encroach on that, so we got a good price so we sold that off, otherwise we do not have any plans of selling any further land. And as far as VRS is concerned, we have announced the VRS and kept it for a period of five, six months and whatever applications came we have given. Now we are not offering any VRS and next year as it is about 60-odd people are retiring those who have completed their retirement age, so I think there would be a natural reduction of manpower and if all these two, three projects which are planning to take in premier one project in our joint-venture, they come through then this present labor would be adequate, we will redeploy them.
- Krishna Kumar:** And from the competition sir, is there any change in the levels of competition pressure from other players now, I think you mentioned last time that the realizations have been low, so is the situation better now, anything you would like to talk about the competitive intensity?
- A.N. Gupta:** There is no change that's why margin in commercial explosive is low and that is one other reason that our total EBITDA margin is also 7% because the detonators whatever we were selling here before at about Rs.5 to Rs.6 is now being sold at Rs.2.5 to Rs.3, something which is drastically lower. Now that the season will be starting after Diwali, we hope there would be some improvement but that is to be seen, there would be some improvement after Diwali because the season will start and some of the infrastructure projects which have been announced would take off and Andhra Pradesh the new Capital is being built so there is also some quarrying activity will start and all that, so I think there would be some improvement but we got to see after Diwali that next week onwards there should be some improvement.
- Krishna Kumar:** And on the Bharat Forge joint venture you talked about getting ready by end of next fiscal year, so is there any change to the thought process there, any fast tracking, any change that has happened there?
- A.N. Gupta:** Yes, there are movements and we are expecting industrial license next week and after that we will take up the project there also.



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- Krishna Kumar:** And how much we need to invest sir for the project?
- A.N. Gupta:** As of now nothing on the drawing board, probably again by January or February we will be able to have a total business plan for that.
- Krishna Kumar:** Sir just a broader guidance sir, would we probably look at overall including investments and CAPEX look to put in about 100 crores overall in the next 12 to 18 months sir?
- A.N. Gupta:** Yes, approximately that could be the figure plus minus 10 lakhs to 15 lakhs.
- Moderator:** Thank you. Our next question is from the line of Pritesh Vora from Incedo. Please go ahead.
- Pritesh Vora:** Sir, I want to understand the Ministry of Defense related contract for the explosive, along with the solar industries qualified so what is the size of opportunity do you see in that contract?
- A.N. Gupta:** I am not clear on what project you are talking about.
- Pritesh Vora:** This is for some defense related supply.
- A.N. Gupta:** No, I do not think there is any contract like that. See, Defense Secretary had called for a meeting for interaction between the industry and the user that is Army and Master General of Ordnance was there, meeting around 27th of last month for which many potential producers and existing producers like ourselves and economic exclusives were invited and they projected a certain requirement of ammunition for the current year and next 10 to 15 years, and they said that listen, now that there is a visibility that the industry had been asking that what is the potential and how long the potential will last, then they invited that we should go proactively and get whatever OEM duties are required or our development is required and try to put in the facilities to produce. That was sort of every time say 1,000 crores has to be invested the industry would like to know what is the market, because all the market was before this restricted to ordnance factory and we were trying to import but procedure for RFI, RFP and the process of waiting and all that was such a long one that nothing basically was imported for last two to three years time, so he is now wanting to make it clear that whatever ordnance factory is not able to produce and what is the requirement which is projected by the Master General of Ordnance after taking into supply and stock position, they listed those things and those things are very attractive, large quantities are there and he said that it will be required for at least 10 to 15 years.
- Pritesh Vora:** And what is that quantity sir, what is the quantum of jobs they were talking about in the ammunition space which will come to private party?
- A.N. Gupta:** There are a number of items and quantities are very large, but we have not been able to quantify it because we do not know the prices of each item, say somebody says that it is 23



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millimeter SU, what is the price of that, we are in the process of collecting those prices let's see what is it, but I think the figures will be extremely large, mind boggling.

Pritesh Vora: So what stage are you ready, I mean are you putting any CAPEX to cater to this potential demand, if you are PE qualified that space?

A.N. Gupta: I think you are repeating the question, so we are in the process, we have already visited number of countries, we have met the OEMs, I cannot tell you who and all of them are in the final sort of negotiation stage, they are having some meetings at the end of this month, some in the next month and all that but by the end of December I think the things will be very clear and we will be able to come out with what is the CAPEX required, what are the items we are sitting into and how the future looks.

Pritesh Vora: So you are not budgeted as of now for the CAPEX?

C. Subba Rao: Not possible.

A.N. Gupta: Until and unless you know what I am going to make how can I? Right now there are a lot of items and they are in large quantities and there are very exciting market situation, I think this is an inflection point which the industry had been looking at, explosive industry had been looking at.

Pritesh Vora: So sir coming to your present business, who are our customers, major clients in the present business, if you leave the Defense Ministry apart?

C. Subba Rao: You are asking for the commercial explosives, right?

Pritesh Vora: Yes, commercial explosives.

A.N. Gupta: Commercial explosives, Coal India, Singareni Collieries Company Limited Andhra Pradesh, Neyveli Lignite Corporation in Tamil Nadu and various other private companies, cement companies, etc., and trade. Trade takes a lot of detonators and explosives for sinking and for supplying your rubble, for your concrete, for road, or tunnels or canals.

Pritesh Vora: So sir if I consider two to three years view, what sort of revenue growth we can see from your at present operation as well as the future operation?

A.N. Gupta: I think let's wait for another two months sir, my suggestion, then I can give you a clear picture.

Pritesh Vora: Next quarter is it?

A.N. Gupta: Yes, in December.



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Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Saurabh Ambaselkar from S-Ancial Global Solution. Over to you, sir.

Saurabh Ambaselkar: Thank you Malika. On behalf of S-Ancial Global Solutions I thank the management and all the participants. Thank you and Happy Diwali.

A.N. Gupta: Happy Diwali to all the participants and to S-Ancial and the organizers of this con-call.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of S-Ancial Global Solutions that concludes this conference call. Thank you for joining us and you may now disconnect your lines.