Premier Explosives Limited

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November 8, 2016

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

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

Dear Sir/Madam,

Sub: Transcript of Conference call pertaining to the Second Quarter ended 30th September, 2016 results

Please find attached the Transcript of the Conference call hosted by S-Ancial Global Solutions Private Limited on 3rd November 2016 pertaining to 'Premier Explosives Limited Q2 FY2017 Earnings'.

This is for your kind information and record.

Thanking you,

Yours faithfully,
For **Premier Explosives Limited**

C Subba Rao
Chief Financial Officer

Encl:a/a

“Premier Explosives Limited
Q2 FY 2017
Earnings Conference Call”

November 03, 2016

Management: Col. Vikram Mahajan, Director Marketing
Mr. C. Subba Rao, Chief Financial Officer

Moderators: Mr. Rahul Rajagopalan, Asst Vice President,
S-Ancial Global Solutions Private Limited

Ms. Mallika, Chours Call

Mallika: Good day ladies and gentlemen, welcome to the Premier Explosives Limited Q2 FY2017 Earnings Conference Call, hosted by S-Ancial Global Solutions. As a reminder all participant 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 this conference, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rahul Rajagopalan. Thank you and over to you Sir!

Rahul Rajagopalan: Thank you. Good afternoon everybody, I on behalf of S-Ancial Global Solutions welcome you all to Premier Explosives Limited Q2 & First Half 2017 Earnings Conference Call. We have with us Col. Vikram Mahajan, Director Marketing and Mr. C. Subba Rao, who is the CFO. May I request Mr. Subba Rao to take us through his initial remarks and financial highlights subsequent to which we can open the floor for Q&A session! Over to you Sir!

C. Subba Rao: Thank you Mr. Rahul. First of all I welcome everyone to this conference call of Q2 FY2017. In the Stock Exchange, we have reported Mr. T.V. Chowdhary, Deputy Managing Director would be present in the conference call, but unfortunately, he is still in a meeting outside the Company. Col. Vikram Mahajan is here to answer all the queries.

I will go through the opening remarks of this conference call. As mentioned in the results reported to the Stock Exchanges, we have achieved operating revenue of Rs.54.9 Crores in second quarter and Rs. 102.22 Crores in six months and these numbers are 36% and 31% higher compared to previous year periods respectively.

In Q2 sales of commercial explosives grew by 23% and defense explosives by 99% and for the six months period the growth is 28% and 52% respectively. For the first half of the current year, operating margin is 9.2% compared to 7.5% in similar period last year.

Profit before exceptional items and tax showed Rs.6.16 Crores, a growth of 119% over Rs.2.81 Crores for the first half of last year. The net profit stood at Rs.4.15 Crores. During the current quarter there were higher dispatches of Akash Booster Grains. Higher sale of tear gas grenades also helped improvement in the performance. Higher demand from mining sector and export customers also contributed to the improvement in the performance.

As already intimated to the Stock Exchanges, we have received a new order from Bharat Dynamics Limited for Akash Booster Grains. In respect of our new defence projects, negotiations with foreign OEMs are going on satisfactorily.

Order book as on second quarter is Rs.273 Crores comprising of Rs.163 Crores from mining customers and Rs. 87 Crores from defence customers, Rs.25 Crores is there from O&M services. With this I now open the floor for questions and answers. Thank you.

Mallika: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Dixit Doshi from WhiteStone Financial Advisors. Please go ahead.

Dixit Doshi: Sir, two questions; one on the defense side, you have mentioned that Rs.87 Crores is the order book so it is to be executable over how much time?

C. Subba Rao: It will take about 18 month's kind of time.

Dixit Doshi: And this Rs.27 Crores latest order from Bharat Dynamics that has to be completed by June?

C. Subba Rao: That is yes approximately June.

Dixit Doshi: Sir, just one broad question in terms of on Page 11, you have mentioned all the industrial licenses received from DIPP, so it is already one and a half years since we have received the license. So where we are actually standing because we have not heard anything about the foreign collaboration or I mean the discussions are still going on so by when we can expect something on this?

Vikram Mahajan: Good afternoon. I am Col Vikram Mahajan. I am the Marketing Head in this Company. Just to answer your question, yes the licenses have come about a year and a half back. That is perfectly fine, but as you will understand these are very long-term partnerships and relationships, which you are going to build with the foreign OEMs. So there would be number of visits done to your organization, there will be a number of visits by you to their organization, they will be meeting at different levels, what exactly is the format in which they are going to come and work with you, how they are going to work with you, what they are going to get to the table, what you have to bring to their table, so these are very long and tedious discussions and very complicated discussion and the relationship we enter into with say I start manufacturing a machine with Company X, I need to do it for the next 30 years or 40 years. I cannot walk out of that relationship of that venture after two years or three years and do it with another company. So these are very sensible and very difficult decisions to be taken. They will take time. So you will have to bear with us. What we can say is that the discussions are on the right stage. We are talking to some of the best companies in the world. We understand what is to be done by us, what the ammunitions are or what the products that have to be manufactured by us. The OEMs understand what we want. We also wanted our thing to be done tomorrow, day after but what my company gets on the table is more important to me than signing the contract immediately.

Dixit Doshi: But can we expect something concrete within a year or so? I mean at least from the technology tie up part, obviously then we have to build the capacities?

Vikram Mahajan: Let us say one year or one and a half years period is fair enough for us to be seeing from today yes it is something should be done in that period.

Dixit Doshi: Also do we require a technology tie up for all the products for which licenses are received or we can do some of the products on our own?

Vikram Mahajan: It is not that the complete products we require the technology. In the complete product you may require the technology for the complete product also or certain places you may require the technology for part of it. See in that product I can do 20% or 30% of the product myself. So balance 70% I still need the technology. It is something like that.

Dixit Doshi: Thank you. Sir.

Moderator: Thank you. The next question is from the line of Karthik Mehta from Canara Robecco. Please go ahead.

Karthik Mehta: Hello Col. Good afternoon everyone. Sir my question pertains to the order book. If you can just repeat order book as on March FY2016 what was that and how much we have executed of that?

C. Subba Rao: This number of course certainly is changing. I do not have that number in front of me because whatever our orders as you know Coal India and these kind of order, once we receive it, it goes on getting executed and it will come down and again it will spike whenever the new contract comes in.

Karthik Mehta: Yes, I could see from the presentation earlier presentation, it was Rs. 226 Crores. So basically in the first half from 226 Crores closing order book as on March 2016 we are now sitting at 273 Crores and we have executed 102 Crores of revenue. So that is quite commendable task. So basically we are earning…

C. Subba Rao: Of course, actually the turnover which we are showing will have some sales where order is like day-to-day kind of thing where trading sector, detonators, or detonating fuse those orders will be placed over phone and that will be done. It may not completely exist in the order book. Those are not long-term orders. They are orders to be executed over the next one week or over the next one month. So those kinds of orders are there.

Karthik Mehta: So the defence order book as of now is Rs.87 Crores. So what is the duration we generally look at to execute this?

C. Subba Rao: 18 months.

Karthik Mehta: So for the full year of FY2017 we should be doing roughly what sort of defence revenue? I believe you have added Rs.70 Crores to 80 Crores for FY2017?

C. Subba Rao: Yes, totally 230 Crores out of that 70 Crores kind of number for the defence.

Karthik Mehta: So that you want to upgrade or you want to continue with that?

C. Subba Rao: We are trying our best. More or less that will happen, but defence is always some element of surprises can be there.

Karthik Mehta: Because we have done Rs.21 Crores as on first half?

C. Subba Rao: Yes it is still a big task here.

Karthik Mehta: But we ought to be closer to Rs.70 Crores.

C. Subba Rao: Yes.

Karthik Mehta: Overall number Rs.230 Crores would you like to upgrade given the runrate in the second quarter?

C. Subba Rao: No need to change. We are confident of getting this number.

Karthik Mehta: In terms of margin, this 9.5% to 10% seems to be a new norm. Is it fair to say that?

C. Subba Rao: Yes, rest of the year also we are likely to get that kind of number.

Karthik Mehta: Any scope for further improvement in the margins from here on or for the near term it is…?

C. Subba Rao: We will take that way only because actually some of the orders like tear gas grenades, which I mentioned, it may not be the same quantities in the second half. Let us say other products should come up and we should be making it.

Karthik Mehta: Sir on the commercial explosive front, we have seen a 23% growth YOY and this is quite surprising given severe monsoon and some of the flood across the country so can you explain that?

C. Subba Rao: Basically Coal India order was a little higher than last year and some of the product exports are higher.

Karthik Mehta: But the mining activity was so robust that you could actually put a higher number on that commercial explosive front? It was more of underground mining than the open cast?

C. Subba Rao: In India most of the things are open cast only.

Vikram Mahajan: We are present only in open cast right now; but what has happened is we have been able to get more and slightly bigger orders over there. We have made some efforts and we have been slightly more aggressive to get the bigger orders over there. So that is why there has been a ramp up in commercial explosive itself. And export side also we have been able to get some traction over there.

Karthik Mehta: That is what I was coming to. Did we do any export in the quarter?

C. Subba Rao: That is of course in the quarter something or the other will be there. We have done some exports in this quarter. We keep doing and we do exports in almost all quarters.

Karthik Mehta: **Rs.**36 Crores sort of a revenue we did, in the second quarter? So out of that how much was exports?

C. Subba Rao: Export number I do not have, but by the end of the year we are assuming it will reach Rs. 18 to 20 Crores.

Karthik Mehta: So the reason behind asking this question is that despite of significant monsoon we could still report 23% YOY growth in the commercial explosive revenue that was quite a sweet surprise to me.

C. Subba Rao: The reason for that is actually importation of coal is I think being not encouraged and Coal India is given the task of supplying all the requirements of domestic mining companies from domestic production only.

Karthik Mehta: Last question if I may, it is basically on the working capital side. We have seen some sort of spike in the inventory as well as some receivables, and also we have seen the long-term borrowing coming up Rs. 5 Crores in the balance sheet. So if you can just explain these things?

C. Subba Rao: Long-term borrowing is as mentioned in may be last concall that we have actually taken sanctions for Rs. 23 Crores of term loan out of which so far we have done Rs.5 Crores. The projects that are going on both commercial side as well as in the defence products.

Karthik Mehta: This is nothing to do with the licenses what we have got?

C. Subba Rao: These are existing products only. It is basically capacity expansions. Regarding the inventory and receivables of course our overall turnover and along with that working capital is increasing, raw material, stock or some of the things earlier if you compare to March the importation of AN was not so much, but now we are importing raw materials. Similarly for the defence products also we have to stock good amount of raw materials for the batches because quality inspection by defence quality agencies they will do each batch separately so we have to use that qualified batch only. So we have to really stock raw materials.

Karthik Mehta: Thanks a lot Sir. Best of luck Sir.

Moderator: Thank you very much. Our next question is from the line of Naisar Shah from Capital72 Advisors. Please go ahead.

Naisar Shah: Good afternoon and congratulations on good set of numbers. Sir, this BDL order of Rs.28 Crores is it part of our order book, which we have put out in the presentation?

C. Subba Rao: Yes correct.

Naisar Shah: So, if I exclude that there are no major incremental orders in defence segment in Q2?

C. Subba Rao: This is the major one increase.

Naisar Shah: Sir, on the margin side, just trying to understand if you look at on a topline growth of 36% our staff cost has also increased by 31% and other expenses have also gone up by 27% so if you can help us understand the operating leverage in the business would the expenses more or less rise in the same proportion or there is inherent operating leverage in the business if you can throw some light on that?

C. Subba Rao: Actually every third year there would be some wage negotiation between the trade unions and the management. So that is still going on, so it will have some impact on the cost. In the operations and maintenance services in ISRO there were some increase, they are not big contracts, but smaller contracts, but because of that also increase in the staff cost is there. Further the Bonus Act, which was amended last year it came into effect after actually almost close of the year. So annual bonus was provided in the fourth quarter but now some part has come in on the proportionate basis. So these are the reasons why it has gone up and of course production related incentives, overtime and contract labour when the production goes up contract labour also goes up.

Naisar Shah: So just on an annual basis, what kind of staff cost should we assume, because last year you would have had Rs.40 Crores staff cost for the full year the first half is about 24 Crores, so should we assume that this will be the quarterly runrate now Rs.13 Crores kind of a number going forward?

C. Subba Rao: It will be more or less at the same rate.

Naisar Shah: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Aditya Deorah, who is an individual investor. Please go ahead.

Aditya Deorah: Good afternoon Sir. Sir, any update on the Pelnext joint venture?

Vikram Mahajan: It is not a joint venture. We have registered it as a subsidiary company firstly and as and when something happens over there we will let everybody know. We have applied for a license for that. We are awaiting the license from the DIPP. Once the license comes through then we should get cracking on that I would say.

Aditya Deorah: Sir, during the AGM we had some chit chat regarding the ISRO's strap on motors orders, so how are things progressing on that front?

Vikram Mahajan: We are as optimistic as you are. We understand the contracts can be signed over the next few weeks I would say.

Aditya Deorah: What can be the ballpark? What can be the figures we are looking at in per motor or per annum in terms of this order?

Vikram Mahajan: These are contracts with different organizations where we would not be able to give you any figures as of today. The moment the contract gets signed and it is in our hands, we will be able to divest the figures to you.

Aditya Deorah: Sir, we were executing some order for the Air Force also. During the quarter have we booked any revenues on that front?

Vikram Mahajan: Not yet, we have not booked anything on that as of today. I understand the payments will come only after the deliveries. We should be able to produce the product end January or February so let us see when the actual product can be delivered.

Aditya Deorah: Sir how much capex have we incurred for the expansion till now?

C. Subba Rao: So far it is about Rs.5 to 6 Crores would have been spent but still major amounts are still in planning stage. We are assuming like Rs.30 Crores capex over a period of 18 months.

Aditya Deorah: So we expected to be operational somewhere around H2 FY2018?

C. Subba Rao: Yes. Some of this is can be operational may be in the first quarter itself, may be some backward integration can happen in this current year. Execution per se is almost over, but some of the clearance for quality parameters of the output and testing that is pending.

Aditya Deorah: So we expect our margins to increase because of the backward integration?

C. Subba Rao: Once that is through certainly improvement will be there in the margin. But we will stick with the current margins for the current year let us be slightly conservative before it happens.

Aditya Deorah: What are the product lines we are expanding into like the capacity, what are the product lines basically?

C. Subba Rao: That is in the commercial side, it is detonating fuse and some amount of bulk explosives and also defence products.

Vikram Mahajan: In the defense side if you look at the licenses that we have applied for that will give you a fair idea we are intending to go.

Aditya Deorah: Thank you.

Moderator: Thank you. The next question is from the line of Chetan Gandhi from Gandhi Securities. Please go ahead. We take the next question from the line of Kalpesh Goti from Veda Investments. Please go ahead.

Kalpesh Goti: Good evening Sir. First can you tell me what the TAN prices are and how much we are procuring the inputs?

C. Subba Rao: Prices of what sorry?

Kalpesh Goti: Raw material tan prices?

C. Subba Rao: You mean Ammonium Nitrate?

Kalpesh Goti: Yes.

C. Subba Rao: I got it now, technical grade ammonium nitrate. I do not think we should discuss that here.

Vikram Mahajan: We are very competitive. We could be purchasing at price, which is as competitive with any other manufacturer in India who is procuring the same item.

Kalpesh Goti: Is the international prices still lower than the domestic prices?

Vikram Mahajan: Yes, currently. There is a certain amount of difference that is why we are importing it.

C. Subba Rao: There are indications that government may impose some countervailing duty on imports; we are waiting for some action on that but for the time being it is fine.

Kalpesh Goti: Again you know LRSAM will be successfully tested. Congratulations for that and Sir Can you give some bit of idea when this going to be converting into the orders?

Vikram Mahajan: I think if we see our timeframe of about six months that will not be a very incorrect timeframe. See the induction is the decision to be taken by government and it is government organization, which are going to do that. We are only a supplier to the government organization that is in this case BDL and DRDOs. So our assumption is that it should be inducted in the next let us say six months that is what we are aiming at, we are hoping for.

Kalpesh Goti: For all there LRSAM, MRSAM?

Vikram Mahajan: There are only two. LRSAM, MRSAM as of today, which is there in the public domain, yes we understand Sir one of them could be in six months and another one can be in just what about nine months to one year Sir.

Kalpesh Goti: What about the Astra Missile?

Vikram Mahajan: Astra Missile, the prototype one that has been made that has got again our motor Sir. That has been successfully tested Sir and it is proven over there, so as and when it is going to be integrated on which aircraft and when it is going to come up, we also waiting for that. So if that happens in the next six months to one year that will be fantastic news for.

Kalpesh Goti: So probably we expecting in the FY2018 will be good year, so government do their own part. What about the Pinaka 2 Sir?

Vikram Mahajan: Pinaka 2 what we understand is that our motor will supply. We have supplied our motors, they have performed as per the requirement or as per the aspects that were required of them, we have qualified for that. However, there is a slight change in the design of the Pinaka 2. It does not effect our motor, but in Pinaka 2 design, the DRDO, which is concerned with that, is trying to do some modification and make it a better rocket Sir to increase the kill probability of the rocket. So we understand it will take about may be six months or sometime to for that to be finalized six months to one year, before the whole thing is the frozen and then offered to the defence process.

Kalpesh Goti: What is the guidance for the defence revenue for this year?

C. Subba Rao: Overall Rs.230 Crores out of defence like Rs.70 Crores.

Kalpesh Goti: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.

Sanjay Satpathy: First question is that you are explaining that defence which was done very well in the first half. I could not understand whether you are guiding for softer second half I could not get that?

C. Subba Rao: What I told you actually first half sales include some tear gas grenades, that number may not be repetitive some of them in the second half, but overall it should be better only.

Sanjay Satpathy: You just mention the guidance, which I could not really understand clearly, defence you are talking about how much in total revenue how much Sir?

C. Subba Rao: 70.

Sanjay Satpathy: Defence?

C. Subba Rao: Yes.

Sanjay Satpathy: And total?

C. Subba Rao: 230.

Sanjay Satpathy: My last question is when I see your EBITDA margin it has been quite volatile and for a company of your size with staff expenditure being such a high preposition I assume that you are doing a lot of value addition. Can we just explain this volatility in margin and thus the product mix has lot to do with it and lastly what is your long term EBITDA margin expectation?

C. Subba Rao: Basically you are saying for the size of the company, size of the company is small that is why actually on this volatility depending upon the product mix that go on and about the long term, we have to wait for that. I do not think we will be able to tell anything until we know what are the products and all that.

Sanjay Satpathy: Does it mean because you are getting into too many new areas that is why you do not want to guess the number?

C. Subba Rao: It depends upon each month or each quarter, how much will be sales from say explosive so much sales from defence. So it depends upon the product mix also. They did not like standard products every month every quarter.

Sanjay Satpathy: If I can just ask on that. The lot of staff cost how much of that is fixed. I just want to understand your operating leverage again?

C. Subba Rao: Major part is fixed cost.

Sanjay Satpathy: I understood. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Karthik Mehta from Canara Robecco. Please go ahead.

Karthik Mehta: Thanks for the opportunity again. I was just doing back of the envelop calculation, the Rs.230 Crores revenue what we are talking for current financial year. We have done Rs.102 Crores in the first half, so Rs.128 Crores is the incremental revenue we should be doing in the second half and further we have said Rs.70 Crores from the defence and we have done Rs.21 Crores in the first half. So we out of Rs.128 Crores incremental second half revenue, Rs.49 Crores should be ideally coming from the defence. So that would be roughly 38% of the incremental revenue and in the first half we have done Rs.21 Crores, 102 which is 21% of the first half reported revenue. So the pie of the defence revenue in the total revenue in the second half will be 38% versus 21% and naturally your margins in the defence are supposed to be higher than the traditional business. So is it fair to say that the second half margins are supposed to be far higher than the first half?

C. Subba Rao: 70 as to what number we are talking about because when we say defence actually our service is also defence. So if I take the numbers 70.

Karthik Mehta: When we are giving presentation we are categorically giving defence separate in service separate, so while we talk I assume that it has to be that way?

C. Subba Rao: First half say 21 is the defence the product and 9 is defence services?

Karthik Mehta: So I am talking about.

C. Subba Rao: 21 plus 9 that is 30, then the out of 70, so already 30 is made up.

Karthik Mehta: So 40 on 128.

C. Subba Rao: Yes.

Karthik Mehta: Would be roughly 31% of the revenue versus 21%, so basically this margin has to be substantially better?

C. Subba Rao: Let us hope.

Karthik Mehta: My point was is it fair to say that?

Vikram Mahajan: Let us say it will be fair if you can maintain that much.

Karthik Mehta: On the commercial explosive front, what is the execution period we are looking at as of now out of Rs.161 Crores order book?

C. Subba Rao: Sorry, out of 161?

Karthik Mehta: What is the execution period we are looking at for the explosive order book?

C. Subba Rao: That will some of them will take even 20 months kind of time, because Coal India likely to finish in March.

Vikram Mahajan: Coal India Singareni.

C. Subba Rao: They have long term schedule.

Vikram Mahajan: They are from six months almost to about 1.5 year or 2 years onwards.

Karthik Mehta: So any new orders we are looking at a near term because we would be exhausting quite a big chunk of the product?

Vikram Mahajan: The Coal India order gets over somewhere around May and June, so we do not know whether it will be coal India would like to go in March or they would like to still go in May, June, so somewhere around March to June, the next tender should be floated for which we would be bidding.

Karthik Mehta: All right, so basically your order book might see the dip in case Coal India does not open up the new tender and in the second half.

Vikram Mahajan: They have to open the new tender and the only thing is we need to qualify for that. That is all.

Karthik Mehta: That is all from my side. Thanks a lot.

Moderator: The next question is from the line of Ishit Sheth from Anvil. Please go ahead.

Ishit Sheth: Thank you for taking my question. Sir, on the visibility in terms of next year basically for FY2018, so we understand that this year we are likely to see a very strong growth in terms of overall topline. For next year, how do you see yourself basically this Rs.230 Crores kind of if we have, what kind of growth can we expect for FY2018?

Vikram Mahajan: For the company of the size, if we grow it up or rate of anything around 25% I think it would be decent in acceptable position for us.

Ishit Sheth: So we can expect somewhere around Rs.300 Crores for next year.

Vikram Mahajan: We hate giving guidance. That is we do not want to give that, but yes we all work to achieving something which is better than what is acceptable to the market, so I personally feel a target of 25% growth should be, we have been doing 25% for the last two, three years and only it is I think have been noticed by the market. So we aim to do 25% next year also.

Ishit Sheth: Sure, in that case just to understand what kind of focus of the 25% I mean in terms of breakup say for example defence this year out of turnover of around say Rs.230 Crores, we are targeting around Rs.70, Rs.75 Crores in defence, which is closed to around 30% plus. So in that case medium to longer term how do we see our defence being as a part of our overall sales, are we looking to scale it up may be 40%, 45% or something like that or how?

Vikram Mahajan: That is why we have given, that is the inability going to happen over the next 5, 10 years. Your defence portfolio is likely to become bigger and bigger compared to your commercial portfolio and the company has a vision to do that only.

Ishit Sheth: Okay, so our focus will be more on scaling up of defence business.

Vikram Mahajan: That is perfectly fine, because commercial explosive if you see actually and it does not have technological barrier. Anybody can make any commercial explosive tomorrow; you can set up shop and start doing it from tomorrow, whereas in defence, these always are technological barrier. You want to do something which I am doing it may not be so easy for you ultimately you will be able to do it, but it may not be so easy for you to do it. So for us to take for company, which takes pride in being a technologically advance or a savvy company, for us to get into differential with correct area to get into.

Ishit Sheth: Sure and for that what kind of capex are we looking at in defence, because what I understand we have good enough capacities, but because we are getting new licenses we again need to incur some capex for the same. So, what kind of capex number we are looking at over the next two, three years for defence?

C. Subba Rao: The capex, say, for the existence whatever is going on is one side, whatever the licenses this and all that which we were discussing previously ammunition and warheads, kind of things, that has not come into any of our numbers for the time being. Somehow of countermeasures may come even now, but ammunition implementation will take time, because we have to build the facilities, still technology tie up decisions are going and all that. For that we are assuming like Rs.100 Crores of projects investment would be there but when it will start let assume that will take at least two years time from now to complete that kind of project.

Ishit Sheth: To understand the ammunition business, this is the one, which we have tie up with the Kalyani Group?

Vikram Mahajan: No, tie up with Kalyani Group is slightly different that is not for ammunition. It covers a whole gamut but specifically ammunition it is not there because Kalyani also does not have technology and we also going to have the complete technology. Kalyani also is part of technology and we also about part of technology. So 100% technology is still with the OEM who is outside the country. We actually need to tie up with the company which is outside the country could be 100%.

Ishit Sheth: Okay and on the offset opportunity, how do we see that playing out over the next couple of year?

Vikram Mahajan: The offset market is very big. So the requirement of the OEMs is very big, so we are talking into number of them, let us see how it unfolds. As of today for us to give you figure or how it is going to pan out. What happens if you are making a metal portion or if you are making some simple portion which is easy to replace for the OEM is very comfortable, but when you are doing high energy chemicals or doing rocket motors and all those things which required a design to be verified over and over again, it becomes slightly more difficult and more critical solution for the OEM. So we are in number of discussions and there are lot of things which are on the table as of today, but when would they actually fructify for us to give timeframe right now is slightly difficult.

Ishit Sheth: I am just in terms of your overall, what you all have exports it today say Rs.18 to Rs.20 Crores which is around 8% to 9% of our sale. 12 expected to take it higher or considering unless going to see very strong growth in the domestic or defence business if at all?

Vikram Mahajan: That is the call we need to take which product to focus on. You are right, it is commercial explosives and also defence, which we have been focussed on what, should be the driving force in the future for the company. We are taking a call on that. We are discussing various options and what has to be done. So, hopefully it will take decision, which is in the best interest of the shareholders and the company.

Ishit Sheth: Sure definitely. Thank you so much Sir for taking my question.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: With the surgical strike, which India did on Pakistan and this odd thing, which is playing on do you see any increasing seriousness from defence I mean in getting percolation of the orders and all?

Vikram Mahajan: Can I ask your question Sir? What is your opinion Sir?

Jayesh Gandhi: It should be.

Vikram Mahajan: Our opinions are same side it should be.

Jayesh Gandhi: I am just asking whether it has come to the company or not?

Vikram Mahajan: There are enquiries, but when those enquiries will get translate into orders that has to be seen, so that is the mute point. Yes, we understand there is an increased tension on the western border Sir and we understand the country needs to be prepared for that as a conscious citizen and conscious company of the country, we will do whatever is in a power to help the country, meet the challenges and we can assure you that we are getting up for that.

Jayesh Gandhi: That is all from my side, best of luck. Thank you.

Moderator: Thank you. The next question is from the line of Shreyas Bukhanwala from Sushil Finance. Please go ahead.

Shreyas Bukhanwala: Good evening Sir. With the current capacities, what we have and debottlenecking what we are doing of around Rs.25, Rs.30 Crores, so what kind of revenues maximum we can achieve from this current capacities?

C. Subba Rao: Whatever we are doing like Rs.70 Crores kind of turnover which we are doing now, I think we can do at least three, four times from there.

Shreyas Bukhanwala: In defence?

C. Subba Rao: Yes.

Shreyas Bukhanwala: And in explosives side?

Vikram Mahajan: Explosives we can do whether say another 20% 30% over there, but we will do expansion in next explosives as and when required, because there is no point putting in your money over there and keep waiting for the orders.

Shreyas Bukhanwala: Right, I am just talking about the ones which we have already done and one which we are currently doing of around Rs.55 Crores, so inclusive of that explosives what you are saying is around three, four times of current and may be your defence three, four times of current?

Vikram Mahajan: In the case of defence we are building sufficient capacities with us so that at no time, we should be following short of our capacity. In the case of commercial explosives we are taking very cautious and decisive steps.

Shreyas Bukhanwala: In case of defence it would be about over the current capacities can go like now revenue can support up to Rs.250 Crores?

Vikram Mahajan: If the segments which we have presented and where we are expanding if the orders come in that only, we can do that Sir, but if the orders coming or areas or lines where we intend to go, then we will have to set up facilities over there.

Shreyas Bukhanwala: Thanks a lot Sir.

Mallika: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Rahul Rajagopalan from S-Ancial Global Solutions for closing comments. Over to you Sir!

Rahul Rajagopalan: Thank you Mallika. On behalf of S-Ancial Global Solutions, I thank Col. Mahajan and Mr. Rao and all the participants for joining us in the call today. Thank you and good-bye.

Vikram Mahajan: Thank you Rahul. Thanks a lot. Thank you.

Mallika: 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. You may now disconnect your lines.