

Premier Explosives Limited.

COMPANY SNAPSHOT					
CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs409	Rs350	Rs525	28%	BUY	Rs3.6

About the Company:

Established in 1980, Premier Explosives Limited (PEL) has evolved from a regular explosives manufacturer to manufacturing solid propellants for missiles in India. PEL is the first in India to have successfully set up an indigenous technology required for manufacturing explosives and detonating fuels. The company is the first in the world to have produced safer and greener NHN (Nickel Hydrazine Nitrate which are used as Primary Explosives) detonators on a commercial scale. PEL is the first Indian private entity which has been successful in manufacturing and supplying solid propellants for India's missiles programme. The strategic business units can easily be divided into those related to (a) commercial explosives, (b) defence products, (c) operation & maintenance services and (d) wind power. In the category for commercial explosives the company is engaged in manufacturing bulk explosives, cartridge explosives, cast booster, detonators, detonating fuse etc, while in the case of Defence products the company manufactures solid propellants for Agni, Astra, Akash and LRSAM strategic missiles and Pinaka rockets, explosive bolts, pyro actuators, smoke markers, cable cutters etc.

Results Declared:

- There is a slight reduction in the sales of explosives for the quarter ending September 2017 which stood at Rs341.1mn as compared to Rs358.4mn in Q2FY17.
- The sales for the defence related products have increased from Rs141.5mn in Q2FY17 to Rs189.5mn in Q2FY18; which is an increase of 33.9%. Net sales for the quarter stood at Rs582mn as against Rs547mn in the same quarter last year, growth of 6.4%. The component of revenue generated from the service segment is more or less flat at Rs47.7mn in Q2FY18 as compared to Rs45.1mn in the corresponding period last year.
- The Ebitda margins for the quarter came in 8.76% as against 9.51% in the comparative quarter last year.
- The net profit stood at Rs24mn as compared to Rs23mn in the corresponding quarter last year.

Other Highlights:

- The total order book is nearly Rs3,560mn (this also includes the recent orders from coal India). The segment of explosives consists of an order book of nearly Rs2,160mn, while that of defence and services consists of an order book of Rs1,400mn
- The prices of raw materials have increased during the quarter under review, the post effects of demonitisation and that of GST have impacted the company in this quarter to an extent.
- The company is working on strap on motors (6units). ISRO will outsource production to PEL (trial order execution going on currently)
- As per the management discussion, the business of chaff and flares appears to be a permanent business.
- The capex for the company is very much in line, the construction activities are also well on track. The company will make use of this facility for making warheads, explosives etc.

Financials (Standalone):

Result Update (Q2FY2018)									
Q2FY18 Result (Rs mn)	Sep-17	Sep-16	y-o-y	June-17	q-o-q	FY16	FY17	y-o-y	FY18E
Total Income	582	547	6.4%	569	2.3%	1850	2307	24.7%	2630
EBITDA	51	52	(1.9%)	52	(1.9%)	176	284	61.2%	338
Other Income	6	1	-	3	-	5	7	43.9%	10
Interest	14	9	55.6%	11	27.3%	37	44	16.8%	54
Depreciation	9	8	12.5%	9	0.0%	33	35	4.2%	62
Exceptional Items	0	0	-	0	-	27	0	-	0
Tax	10	13	(23.1%)	12	(16.7%)	26	71	-	77
Net Profit	24	23	4.3%	23	4.3%	111	141	27.5%	155

Outlook and Recommendations:

The contribution to the total revenues from the defence segment is gradually increasing thus indicating that the dependence on the business of commercial explosives is reducing; the business segment under focus will change with times to come. We had initiated a BUY on the stock and after achieving the first two targets as the stock price has come back to recommended levels, we revise our target afresh to Rs525.

DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). PSBPL along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Retail), commodity broking, depository participant, and financial products like mutual funds.

PSBPL is SEBI registered under SEBI (Research Analysts) Regulations, 2014 (SEBI Registration no- INH000000859). PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

PSBPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

PSBPL or its associates may have financial interest in the subject company.

Research Analyst or his/her relative's financial interest in the subject company. (YES/NO)-YES

PSBPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.

PSBPL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (YES/NO)- NO

PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.

The research Analyst has served as officer, director or employee of the subject company : (YES/NO)-NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.