SOLAR
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August 05, 2019

To,
The Executive Director
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E)
Mumbai
Symbol: "SOLARINDS EQ"

To,
The Executive Director
Listing Department
BSE Limited
Floor No. 25, PJ Towers
Dalal Street
Mumbai: 400001
Scrip Code: 532725

Sub: Transcription of Conference Call with reference to the unaudited Financial Results for the quarter ended on June 30, 2019 with the management of the Company.

Dear Sir,

Further to our letter dated July 26, 2019 we are forwarding herewith a copy of Transcription of Conference call hosted by KR Choksey Shares & Securities Pvt. Ltd., on Thursday, August 1, 2019 at 11.30 a.m. to discuss the unaudited Financial Results for the quarter ended on June 30, 2019 with the management of the Company.

Kindly take the same on record and acknowledge.

Thanking you

Yours truly,

For Solar Industries India Limited

Pasari

Khushboo Pasari
Company Secretary &
Compliance Officer

Solar Industries India Limited

Solar Industries India Limited
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"Solar Industries India Limited
Q1 FY2020 Earnings Conference Call

August 01, 2019

ANALYST:	MS. PRIYANKA BALIGA – KRCHOKSEY SHARES & SECURITIES
MANAGEMENT:	MR. MANISH NUWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SOLAR INDUSTRIES LIMITED MR. NILESH PANPALIYA - CHIEF FINANCIAL OFFICER – SOLAR INDUSTRIES LIMITED MR. SURESH MENON - EXECUTIVE DIRECTOR – SOLAR INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Solar Industries India Limited Q1 FY2020 Earnings Conference Call, hosted by KRChoksey Shares & Securities. 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 the conference 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 Mr. Priyanka Baliga from KRChoksey. Thank you, and over to you, Ms. Baliga!

Priyanka Baliga: Thank you. Good morning, everyone. This is Priyanka Baliga from KRChoksey Research welcomes you all for the Q1 FY2020 Earnings Conference Call of Solar Industries India Limited.

From the management side, we have Mr. Manish Nuwal, CEO and MD; Mr. Nilesh Panpaliya, CFO; and Mr. Suresh Menon, Executive Director.

Now I would like to hand it over to Mr. Nilesh Panpaliya for his opening remarks, subsequent to which we will have a question-and-answer session.

Thank you, and over to you, Sir!

Nilesh Panpaliya: A very good afternoon to all the valued investors, well-wishers and potential investors of Solar Industries India Limited. On behalf of Solar, I am Nilesh Panpaliya, CFO. Welcome you all to Earnings Call for Q1 of Financial Year 2019-2020. As always, I would like to remind you that during this call, we might make projections or other forward-looking statements regarding future events and about the future financial performance, please remember that such statements are only predictions. Actual events or results may differ materially. And our website will be updated with all the relevant information.

Now to begin with, I would request our Managing Director and CEO, Mr. Manish Nuwal for his comment on the company's performance for the year.

Manish S. Nuwal: Good afternoon to everyone. During the quarter, results are satisfactory in the current demand scenario and it reflects the continued challenges and overall economic slowdown in global markets. Panning out of general elections in India impacted the demand from domestic infrastructure sector. We also witnessed subdued demand from coal mining on account of lower overburden renewal.

The global issues that impacted us, includes the trade war which led to currency depreciation, ultimately leading to translational loss of Rs.35 Crores in overseas business. Domestic explosive market will see increased demand from the mining sector and overburden renewal is likely to increase and demand from road construction and housing activity will also grow as these sectors are priority sectors of the government. In the budget, the government intends to spend Rs.100

lakh Crores in the next 5 years on infrastructure development, which will boost the activities in infrastructure development and will help the explosive industry. The recent budget also plans to construct Rs.1.95 Crores houses in the next 5 years, which will provide a major boost to the housing segment as well.

The overseas revenue is expected to increase from next quarter, looking at the current market situation in Turkey and South Africa.

As far as defense is concerned, we have received order for guided Pinaka rocket. Further, the RFPs for Pinaka and multi-mode hand grenade have been floated, which is a very positive step in the direction of Make in India program. Our current order book from defense stands at Rs. 390 Crores, and we are expecting revenue in the range of Rs. 300 Crores in this year.

We are now entering into the manufacturing of propulsion systems for space applications, which is synergistic with our current business of ammunition. The proposed foray of company in space sector will enable it to develop and offer products, which will cater to the demand of ISRO and various other space technology companies in India and across the globe. We are expecting our growth for this year to be around 20% for the topline and bottomline as well.

Now I will be request Mr. Nilesh to share the financial details of quarter 1 in detail to you all.

Nilesh Panpaliya: Thank you. Coming to the key highlights for the first quarter, our consolidated revenue growth is 0.86% that is Rs. 620 Crores from Rs. 614 Crores. Our domestic explosives revenues grew by 9% that is from Rs. 313 Crores to Rs. 343 Crores. Our domestic volume growth is 2% that is from 90623 metric tons to 92531 metric tons, and the realization of explosives in domestic market has grown by almost 7% that is from 34582 to 36969

The domestic initiative system revenue grew by 33% that is from Rs. 61.74 Crores to Rs. 82.3 Crores. Our export and overseas revenue is Rs. 195.45 Crores compared to Rs. 237 Crores. This decrease is on account of translation loss of Rs. 35 Crores, coupled with lower revenues from Turkey and Zambia on account of global slowdown. Revenue from Defence is Rs. 25.24 Crores in the current quarter compared to Rs. 27.98 Crores as the delivered has been shifted to second quarter.

Coming onto raw material consumption, the same has increased by 0.71% from 56.7% to 57.41%, when we compare year-on-year. This is on account of increase in material prices in the global market, coupled with fall in product realization in global markets. The employee cost has increased by 0.89% that is from 7.57% to 8.46% because of annual pay hike that is the yearly increment; however, because of subdued sales on account of global slowdown, it looks marginally higher as a percentage of sales in this quarter. The other expenses have decreased by 0.84% that is from 14.88% to 14.04%. Last year, there was foreign exchange loss of Rs. 9 Crores in overseas operation, which is not there in the current quarter.

We reported an EBITDA of Rs. 130.28 Crores for the quarter, which is 21% compared to 22.10% when we compare year-on-year. Going ahead, we expect better margins because of improved revenues from defense overseas and exports. Interest and finance cost is almost at the same level, that is 1.95% as a percentage of sales when we compare year-on-year. Depreciation has increased by 0.87% and this is because of capex carried out in the last year. The profit before tax margin stands at 15.92% compared to 17.89%. The current tax rate for the quarter is 25% compared to 34% as the tax rate was reduced because of the budgetary provisions of 2019. In absolute basis, the net profit has shown marginal growth of 1.25% that is Rs. 73.83 Crores compared to Rs. 72.92 Crores.

Now coming to the capex, the total capex in Q1 FY2020 was Rs. 48.68 Crores. We have a planned capex of Rs. 270 Crores for the year. The total order book is of Rs. 897 Crores, comprising of orders from Coal India, Singreni and Defence. Defence order book, as we shared, is Rs. 390 Crores.

So these are the updates for the quarter. Now we would be happy to take any questions, comments or suggestions that you may have. Back to you, operator.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhaval Dama from Equirus Capital.

Dhaval Dama: Yes, Sir, so wanted to ask you, now we are seeing that there is global slowdown in the market. And so that has also impacted your overseas operations and exports. So going out for the next three quarters, how do you see this panning out? Also coupled with the fact that because we you have been guiding for around 20% profit growth number for the full year. So do you think that, that will still be achievable, looking at the **(inaudible) 11.10**?

Manish S. Nuwal: So first of all, as we have mentioned that we will continue with the guidance which we have given. Definitely with our first quarter, we got affected, particularly in export and overseas revenue but now with the type of feedback we have from our marketing team, we are working in these areas. We definitely see that Q2, Q3, Q4 will be better compared to Q1.

Dhaval Dama: Sir, any chances of translation loss coming into the further quarters? Or are you seeing any translation loss coming into the current quarter also?

Nilesh Panpaliya: As of now, we do not think there will be so much translational loss, but we cannot predict how the trade war is going to shape up in the future. And what will the various decisions taken by U.S., China and other influencing economies. So once we get a clarity on that probably then it would be relevant. But as of now, under the present conditions, there will be significant translational loss. Just for clarity basis, this translational losses happening because we are converting the currency from the local currency to the Turkish currency to U.S. dollars and again from U.S. dollar to INR right, so for having a consolidated figure. So actually, in their country, there is no such loss, but it is only a book entry which we need to consider.

Dhaval Dama: Right. Yes, Sure, Sir. Sir, again wanted to ask you on your domestic business front also, like say, which are the particular products where we are expanding capacity on the exclusive side? Not on the defense side. So like say, can you just elaborate more on what would be the current capacity in both cartridge and bulk and how you are looking to ramp it up further from here on?

Nilesh Panpaliya: Whilst we have licensed capacity of 314000, but what we can deliver right now is close to 250000. So as and when we see the demand coming up, we will be increasing the number of pump trucks. So we have a planned capex for that. Similarly, in case of explosives, we are almost running 100% capacity utilization of around 175000 metric tons that also we are planning to increase it subsequently with the demand, which we are expecting from the Infrastructure segment and Housing segment. And we are expanding in packaging and we have expanding in initiating systems and bulk. So all the 3 segments, we are having our expansion.

Dhaval Dama: Sir, so I guess that it would be fair enough to assume that your cartridges or cartridge explosives would be growing faster as compared to bulk and would continue to do that in the near term at least?

Nilesh Panpaliya: Yes, definitely, because of priority of Infrastructure and Housing system by the certain government.

Dhaval Dama: Okay. And Sir, one last thing I wanted to ask you on how your capacities are ramping up in the South African business? And because I think that going into last year, also we were pretty confident that South Africa business will contribute meaningfully to the overseas operations during the current year. So how do we see the year panning out for the South African business? I think that we are at around 25,000 tonnes of capacity over there. So what kind of revenues could you expect for the full year from that business?

Nilesh Panpaliya: So as far as South African business is concerned, yes, now the supply chain and logistics has been established there. We have successfully completed the various trials with further requirement of the plants there and from second quarter onwards, we will see that quarter-on-quarter there will be improvement in the revenues.

Dhaval Dama: That is it from my side. Thank you.

Moderator: Thank you. The next question is on the line of Jasdeep Walia from Intra Finance. Please go ahead.

Jasdeep Walia: Thanks for taking my question. Sir first of all, the order which you have got on Pinaka, is it a commercial order or is it a trial order?

Nilesh Panpaliya: It is a trial order, or a development order, you can say.

Jasdeep Walia: This RFPs which has been floated by the government with respect to Pinaka and one more item you mentioned, the contracts are how big, Sir?

Nilesh Panpaliya: So this RFP has just been floated. So first, we will have to participate for technical qualification and then it will be for price discovery. So we, after one of the price discovery happens, we will be able to understand that how big that contract will be.

Jasdeep Walia: Got it. And Sir, so basically the process for awarding the contract is pretty long. So the RFPs have been floated now, but it seems like the order will come possibly in 3 or 4 quarters, if at all it comes.

Nilesh Panpaliya: Yes. Definitely going by the historic analysis, it normally takes some time, but now with the present success of the government in that election and defense and make in India being their priority sector again so we are definitely very confident that it should happen in 3 to 4 quarters. And typically, when you talk about these RFPs, if you talk about Pinaka, it is approximately about 1000 pieces as far as the RFP goes per annum. So price discovery will happen and then only we will be able to see how big it is. And as far as the multi-mode hand grenade is concerned, it is again for 10 lakh pieces and that is for 2 years. So for that also, the size will depend. And this Pinaka is for 10 years and the multiple hand grenade is 2 years.

Jasdeep Walia: Got it. Sir, what is your scope of work in Pinaka? So you will manufacture only the propellant or you'll assemble the entire Pinaka missile?

Manish S. Nuwal: The entire Pinaka, we will have to assemble it, yes.

Jasdeep Walia: Got it. The last question, Sir, what is the total size of the explosive market outside India, in which you participate?

Manish S. Nuwal: I will give you in a few minutes from now, wherever another question answer is going on, in between I will comment on this that what is the present size of the market, in which we are there, okay.

Jasdeep Walia: And Sir, any other development in the defense business which you would like to highlight apart from what you have mentioned already?

Manish S. Nuwal: No, we have mentioned whatever we had to, so there is no other thing which we had like to comment on.

Moderator: Thank you. The next question is from the line of Mr. B.V. Bajaj from Bajaj Shares and Securities. Please go ahead.

B.V. Bajaj: Congrats for the excellent results maintained, though global Chinese market and international market, we could do a bit little low. Sir, I have two questions. One is on Pinaka, which is front-ended by DRDO. So we are in turn supplying to DRDO or Indian Army for this? And are you having, second question are you having any opening in Prahaar Missile and also which is developed by DRDO?

Manish S. Nuwal: Can you come to the second question?

B.V. Bajaj: Second question, that Prahaar Missile developed by DRDO. Are we having any stake of supply in that as a propellant or as an ammunition?

Manish S. Nuwal: For Prahaar missile, we do not have anything right now, as of now, but we are definitely working towards it. And the second question is on the Pinaka and we will be supplying it, yes.

B.D. Bajaj: Sir, has the DRDO developed, front-ended?

Manish S. Nuwal: That has been developed by DRDO, but it is front ended by MGO.

B.D. Bajaj: One other question of industry segment on explosives that your employee cost is much low compared to other peer companies. So is there any attrition level or you are facing, any other things because it is really low, almost 8% only though after revision of the pre-packet. Can you highlight on this, Sir? It is almost 20%, Sir.

Manish S. Nuwal: No, for our illustrating, the type of efficiency levels which we are maintaining a type of scale of operations we have. This is pretty much in line with that. And probably, we would have looking that this figure should have been a bit lower, but with the subdued sales, as the sales will increase, we will see that coming down.

B.D. Bajaj: Thank you Sir.

Moderator: Thank you. The next question is from the line of Shreyas Bhukhanwala from Canara Robeco. Please go ahead.

Shreyas Bhukhanwala: Thanks for the opportunity. So couple of questions; one is on the overseas business. So last quarter, we had an issue with Turkey as well as Zambia, either because of the elections or the economic scenario. And we're hoping that from this quarter, probably should improve. So how are the things on that end?

Manish S. Nuwal: Definitely, as we said now, even the government there is wanting the growth to happen and that is why they have reduced the interest rate from 24% to 19.5%, just to boost the Turkish economy. And with that, we are really positive that but the economy will pickup and more demand will come in that sector. Secondly even if you see our interest rate, which was around 1.95%, so the interest rate has gone subsequently higher in Turkey because of the effective steps taken by us to release our forex and all and this has been maintained at same levels.

But as for whatever our feedback we get from our marketing people out there, they definitely think that the demand will pick up in Turkey, and we will get good sales.

Shreyas Bhukhanwala: But have we seen that happening this quarter?

Manish S. Nuwal: We have seen in the first month off late that there has been an increased demand.

Shreyas Bhukhanwala: Of the total, so exports and overseas together, last year, we did around Rs. 865 Crores on a full year basis so how much are we targeting for this year?

Nilesh Panpaliya: Rs. 1000 Crores plus.

Manish S. Nuwal: It is Rs. 1000 Crores plus.

Shreyas Bhukhanwala: Yes. Okay. On the domestic side, last 3, 4 quarters, we have been seeing a decline on other institutional sales. So how are things panning out on that side? Because Coal India, we have seen at least a decent growth, but other institutional side?

Manish S. Nuwal: So for non-CIL if you see from the previous quarter, Q4 FY2019, where our revenue was Rs. 66 Crores, now in Q1 FY2020, it has increased to Rs. 71.80 Crores so which is a growth. So this is just the start. So eventually, you will see that this revenue coming from this sector as well and the growth is there.

Shreyas Bhukhanwala: So tendering and all, how is that happening on that side?

Manish S. Nuwal: Here in case of this, the tendering is going on and as more and more private sector mine start-up, that will help us to increase our share in the institutional business. As far as Coal India tenders are concerned, they are on the verge that in couple of months, things will shape up, and we will inform everyone of how we fared in the tender once things are finalized.

Shreyas Bhukhanwala: Okay. Sir, on the domestic front, so last year, I guess we did volumes of almost Rs. 3.5 lakhs. So how much are we targeting this year on volume trend?

Manish S. Nuwal: This year, we are expecting around 15% growth in the volume.

Shreyas Bhukhanwala: Sir, again on the guidance front, so we are guiding on 20% growth despite having a more muted growth in Q1. So the asking rate goes to almost 25% for the next 3 quarters. So are we confident we probably would be able to achieve that?

Manish S. Nuwal: Yes, we are confident, that is why we are maintaining the guidance.

Shreyas Bhukhanwala: Sir would that be majorly driven by a comeback in export overseas or of overseas as well as domestic?

Manish S. Nuwal: It will be overall, export, overseas and defense and then our Coal India and Coal segment as well as Infrastructure. So unless and until something terribly goes wrong as far as the trade wars are concerned and some policies and defocus by the government on spending in infrastructure and housing. But as far as what is going on, on the present moment for indication here, we are still comfortable of that 18% to 20% growth.

Shreyas Bhukhanwala: Sir, on the margin side, how do you see margins in the coming year?

Nilesh Panpaliya: So there is a marginal decline in the margin, it is still above 21% compared to the previous quarter and the last quarter. And definitely, as the sales will grow, margins will grow.

Shreyas Bhukhanwala: Okay. And can you give a bifurcation of the exports and overseas for Q1?

Nilesh Panpaliya: Yes. So from Q1, our overseas are Rs. 162 Crores, and our export is Rs. 33 Crores almost.

Moderator: Thank you. The next question is from the line of Nirav Savai from JM Financial. Please go ahead.

Nirav Savai: The question is particularly for the overseas market. We were planning to start manufacturing in 2 new countries; Australia was one of them, which we had indicated in the last call. So what is the progress there? And where do we see revenues coming on from newer geographies?

Manish S. Nuwal: So we are still under the constructing the capacities there in Australia and in Ghana. And definitely we see that from the Q3, Q4 onwards, revenue will come from those areas also, operations we are doing.

Nirav Savai: Okay. And also as we see, we had a capex plan where we are increasing our capacity to about 7 lakh tonnes domestic capacity, which was expected to come by FY2020. And so is that in place or we see that can be postponed to FY2021?

Nilesh Panpaliya: No, that is very much in place. And that is why, like last year also we did capex. And this year also, we have a target of Rs. 270 Crores for capex which it we will be doing and increasing our production, taking up capacities this year.

Nirav Savai: Okay. And this Rs. 270 Crores also includes overseas capacities?

Nilesh Panpaliya: Yes. Both domestic and defense.

Nirav Savai: All right. Is there any possibility you can give us a breakup, what is the capex what you are doing on the overseas side?

Nilesh Panpaliya: This is typically, if you talk about Rs. 270 Crores in equally divided among the 3 segments. And then depending on the opportunity, plus/minus 10%, 15% in either of the sectors.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir, could you help us with the trend in ammonia prices, how have they fared and how does it look like?

Manish S. Nuwal: Ammonia prices, we talk about 2 scenarios, one is globally. So globally they have been very strong. And ammonia nitrate prices, and as far as India is concerned, there is a big reduction in the local prices.

Abhishek Ghosh: Okay. Sir, why the difference because some capacities in India has come up is it?

Manish S. Nuwal: Yes. Capacities have come up in India and because of global slowdown, even imports are coming down.

Abhishek Ghosh: Okay. And Sir how has been the working capital situation in the current quarter? Because have you also rejected or not taken up some of the orders because of the working capital issue. And how is it looking like from the March levels?

Nilesh Panpaliya: Yes, from the March level, we are pretty much the same, the working capital days are pretty much the same. Because the market was 90 days and then this end of this quarter, it is around 92 days.

Abhishek Ghosh: Sir, sorry, we hear some amount of strike in Coal India and other things, which have been going around. So when does the tendering for the Coal India thing come up? Does it come up in the next 2, 3 months? And can that impact the kind of tenders that they gave out, in your assessment?

Manish S. Nuwal: These issues should not have. There was just the subsidiary which was such issues were there. But I think it will be sorted out and it will not be affecting the tender size overall.

Abhishek Ghosh: But when does it come up, the Coal India tender?

Manish S. Nuwal: Another 2 months.

Abhishek Ghosh: Basically if I look at your overall Coal India, you have about Rs. 300 Crores of order backlog, which is almost about 8, 9 months kind of a backlog for you and post that, you are seeing in couple of months, you will have the new tender come up so your order backlog?

Manish S. Nuwal: The process has already started and within 2 months' time, it will be finalized for the full year.

Abhishek Ghosh: Okay. You will have that cover and that is it.

Manish S. Nuwal: Yes.

Abhishek Ghosh: One last thing, what is going on in Singreni because in terms of we had some issues, I am seeing for last 4 quarters, it has been on a constant decline also, what is the situation there?

Manish S. Nuwal: Because of the last year, like there was severe price competition in there, and we decided purposely not to go and make it further lower. But we are very hopeful that the first tenders which will be coming up we will be able to take up the quantities.

Abhishek Ghosh: Sir, when does that come up?

Manish S. Nuwal: This is next year.

Abhishek Ghosh: In FY2021 the renewal of the tender?

Manish S. Nuwal: Yes. The renewal of the tender.

Abhishek Ghosh: Thank you so much for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: So my question is on the explosives volumes, which you have reported at a 2% Y-o-Y growth for the current quarter. Now what we were trying to understand is that the trade in the Infra segment essentially has seen a 29% topline growth, almost a 29% sort of a topline growth. So what kind of volume decline have you seen for Coal India and other institutional miners? And what led to this decline?

Nilesh Panpaliya: When we talk about the volumes, so overall, the explosive volume as we said has gone from 90,623 to 92,531.

Abhijit Mitra: 2% sort of an increase.

Manish S. Nuwal: But as we said that because of the lower overburden removal in place of Coal India and coupled with signing of the last phase of this election, we saw that the demand was lower from the segments, but now the government announcing so many measures like Gramin Padal, Bharatmala Industrial Corridors then metro rail, UDAY Speed road network, we are again confident that the demand which we were already seeing in the month of July picked up from the segments. And even the overburden removal in mining has to happen because unless this thing is opened, we are not able to maintain the core production. So from October onward, that is the post monsoon, we will see that also Q3, it will go up because now the monsoon, as you are aware, that this is a seasonal industry that in the second quarter, yes, the production are lower. So from Q3, October onwards, you see, we see that we will see that increase significantly.

Abhijit Mitra: Yes. So the second question was related to it only, so how much lever do you have on the Trade and Infra segment? I mean, how much can you ramp it up further if there is weakness which persists in the institutional side?

Manish S. Nuwal: If we have the capacity, and we are increasing the capacity so we will be able to meet the demand. We have already made necessary preparations to ensure that if that type of demand comes up our company will be able to meet that.

Abhijit Mitra: Yes. And the second part is that this Trade and Infra, this is majorly catering to the Road segment, right? So are you seeing a slowdown there or have any talks of funding? And I will come to your notice, I mean, how do you see it for the course of the remainder year or 1.5 years?

Manish S. Nuwal: So there were some funding issues but I think the Honorable Minister and the Government has taken the necessary steps to ensure that such problems are eliminated and the progress should be there. So last year also, we saw substantial problem being taken care of and the road construction is going to almost 40 kilometers per day. And we are very confident that now also, because we being in the priority sector, they will take various measures to meet the stressed asset by implementing of many innovative schemes with land acquisition process being streamlined so all these things result in them achieving their targets.

Moderator: Thank you. The next question is from the line of Neha Talreja from Emkay Global Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: You mentioned that the global trade war can have an impact on our business and that can cause a concern. Can you give a little more specific, what part of our business will be affected by this, just only our exports or our overseas operations? Or you also see that the Indian operations can also come under pressure because of that? A little bit more detail in that.

Manish S. Nuwal: Yes, as far as trade wars and its impact on our company is concerned, we are not seeing the effect of all these wars or trade wars on Indian markets. But definitely, we have seen the effect of all such things on our global market. Like especially Turkish market, where the currency has devalued by almost 40% in just one month last year in the month of September October then markets fell down. And now things are improving. So such things can happen anywhere, any time. We cannot predict those things. But we are part of these systems so definitely we get impacted by all these things. But as of now like we have mentioned, we have seen there are some positive indications in all the markets wherever we are present, and things will be better now onwards.

Rohan Gupta: Sir, once again, getting slightly more in deeper. So even in those markets, we understand that because of the global trade war, those markets may be affected a little bit. But now we have presence more than 5 to 7 countries and now going to Australia and Ghana including, and that is more of the translational in nature rather than the actual losses which we are going to incur in those markets. So do you see that it is going to have a significant impact on our actual profitability or real cash flows, even if the trade war continues globally?

Manish S. Nuwal: Like you have said, we are present in all those 5 countries, if we take an example of, say, an African country. So those countries are not affected directly by any kind of trade wars. But definitely as the commodity demand goes up or goes down in local situations, right. And if we look at the currency transformation part so we have seen that it has been the effect of more income European side, not in African side. So as far as our Africa is concerned, we have not seen much pain of all these things in our profitability side. But yes, in Turkish market, there was a big currency meltdown, which has affected us, but all those corrections have been taken and we believe that things will be better.

Rohan Gupta: Sir, just a last question. Sir, you mentioned that the Rs. 270 Crores capex will be equally divided in all the three business, roughly, it means roughly Rs. 90 Crores to Rs. 100 Crores will further go in defense. With that, I think that we will have close to total investment in defense, close to Rs. 400 Crores, as we mean that Rs. 300 Crores has already gone. With this Rs. 400 Crores sort of investment last year, we did revenue of Rs. 170 Crores. So, I just want to gauge that of the Rs. 400 Crores capex by the year-end, what is the revenue potential on a full optimization, optimal level of that investment can be?

Manish S. Nuwal: As we mentioned that we have invested around this level in our defense business, definitely various tests, trials and product validification and quality parameters has been tested. And we are expecting that at least Rs. 1,000 Crores revenue on the present investment, we should be able to do. So we are waiting for the various RFPs to execute and then we will see these levels attained. However, as far as like you have said that we have invested Rs. 300 Crores and all that figures, actually we have invested almost close to Rs. 500 Crores. And in this year, if we take that what is our future capex program for this year with it will lead to Rs. 580 Crores to Rs. 600 Crores mark. So what we will be getting out of this investment, correct, this is your basic question, so out of these investments, what products or what kind of activities we have already created? We have created facilities for INSB materials, propellants, warhead manufacturing, integration of NASA or integration of any kind of rocket or missile. We have also created lot of testing facilities in our campus. We have also created facilities to make products like grenades and fuses so only issue is that once all these products start in commercial phase, we will see a big positive impact in our topline and bottomline. The issue or question is when it will start, right? So like we have said, we have an order book of almost Rs. 390 Crores and as the things progressing like conversion of RFPs into commercial orders so then things will be different. And on the top of Rs. 600 Crores, if we achieve Rs. 1,000 Crores, so then it will make a big positive impact on our top line and bottomline numbers.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir just wanted to get an update on the status of BMCS and ammunition orders. I think in 2Q call, you had commented that both these orders are under technical evaluation. So what is the status of these orders right now, Sir?

Manish S. Nuwal: The status of these RFPs is still the same. And practically, there is no change in the status as of now. But we are expecting by December, the RFPs, as far as technical evaluation is concerned, it should conclude. But there is a recent statement officially by the NGO.

Jasdeep Walia: Got it. And Sir, what is the potential opportunity, and within that, your foray into this space exploration?

Manish S. Nuwal: Like we have shared that this business is a great opportunity for various private players, for the next few decades and we have decided to enter into the segment of making propulsion system. And we believe that it will provide a big opportunity for us and will put Solar different orbit of technology world as far as space is concerned. However, as far as the opportunity is concerned, it will take some time for us to share what kind of opportunity and what kind of investments we will be carving out for this segment. So we will share the progress as and when it happens.

Moderator: Thank you. The next question is from the line of Ankit Pandey from Systematix Shares. Please go ahead.

Ankit Pandey: Thanks for taking my question. Firstly, on this new opportunity in the space that you call the small satellite launch vehicle, could you tell us about the way to look forward into that particular opportunity that you have? How did you come across the opportunity? And really, what kind of a business timelines that you have on this it seems to be a very exciting development to have? Thank you.

Manish S. Nuwal: Yes. Mr. Ankit thank you for this question again. Like I have said, this business of SSLV which is Small Satellite Launched Vehicle is a great opportunity for the private sector. And once the government policy will be in place, it will be a big boost for India's commercial and strategic needs to be fulfilled by this kind of development. So as a company, we have decided to enter into the segment of propulsion for space applications. We will be open for investments in some kind of technology adoption or joining hands with some people. So as we progress in this segment, we will take the approval of our shareholders, with this kind of business which is quite synergistic with our current business is a big opportunity for all of us.

Ankit Pandey: Okay. So this would entail probably maybe joint ventures or partnerships and maybe trials etc., so if I am not mistaken, there have been no tenders so far, is that correct?

Manish S. Nuwal: Repeat again?

Ankit Pandey: I am sorry, so have there been any tenders or any formal offers, none of that yet?

Manish S. Nuwal: No, it will take some time. As of now, there are no formal tenders for these kinds of products.

Moderator: Thank you. The next question is from the line of Pinaki Banerjee from Dalmia Securities. Please go ahead.

Pinaki Banerjee: Good afternoon. Thanks for taking my question. Sir, actually in last quarter, you had mentioned that you are expecting a volume growth of 15%, wherein the FY2019, you had reported, I think if I am correct MT 348500. So are you still confident of reporting a 15% year-on-year volume growth?

Nilesh Panpaliya: Yes, we are confident of reporting that.

Pinaki Banerjee: Sir, actually I am coming to that rate of realization, you said that since the rate of realization is dependent on the ammonium nitrate prices. You said that they have almost peaked, and you are expecting no further significant increase in the prices of ammonium nitrate. So what is your stance now, actually? Do you find any increase or will it be staying at the same level?

Nilesh Panpaliya: Like we have shared over the years that explosive prices are linked to the ammonium nitrate prices to a great extent and it is impacted by some kind of demand-supply gap or some kind of extreme activation in the tendering process also. But as of now, like we have shared that ammonium nitrate price has now started softening a bit. And we have to reduce the explosive prices also in line these kinds of factors.

Pinaki Banerjee: Thank you. That is all from my end. Thank you.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak. Please go ahead.

Gagan Thareja: Good afternoon Sir. Sir, you indicated the new potential once you reach optimum turnover from the defense investments that you have made. Two questions on that. One, conservatively, if one were to put a timeline to the numbers that you have given, what could be the approximate timeframe by when you could hit that? Two, since there will be operating leverage benefits coming in as you utilize this facility better, what margin, potential improvements in margin are possible from that? That is the first question.

Nilesh Panpaliya: Like you said that what is our projection or potential when we can reach to these kinds of numbers. Like we have shared that by 2020, we were targeting to achieve Rs. 500 Crores mark from defense segment. That we have shared that due to various factors related to RFPs, these projections may not be achievable in this year but for the next year, we are pretty confident that looking at the current indication, we will reach to that Rs. 500 Crores or we will cross Rs. 500 Crores. But as of now, it will be reaching in the range of Rs. 300 Crores and next year, we are trying to reach Rs. 500 Crores level. But as we progress further, definitely more clarity will start. But the kind of infrastructure which we have created can handle practically any kind of product as far as ammunition is concerned. So we have an advantage of complete integration right some small item to any kind of bigger item as well. So we have a potential to unlock this value in coming years. But frankly speaking, today, as of now, it is difficult for us to share when we will reach Rs. 1,000 Crores or Rs. 1,200 Crores but like I said, as we progress towards the next year level, in the next projection definitely.

Gagan Thareja: So the RFPs that you are participating in the Pinaka order, the grenade order and some of the other ammunition orders, put together, roughly what could be the revenue potential from these orders from these RFPs for you?

Manish S. Nuwal: Yes, like Mr. Nilesh has shared that we will be participating now again in RFP for Pinaka and multi-mode. So multi-mode grenade is 10 lakh pieces in next two years, which means 5 lakh pieces per annum and as far as Pinaka is concerned, is 1,000 pieces per annum, this is for 10 years. So as of now, we may not be able to share the kind of value arising out of these 2 products. But based on the past RFPs and these RFPs, we are confident that in next year, we will cross Rs. 500 Crores. This is what I can share with you at this juncture. Your point on another point was on advantage of operating leverage and its impact on our margin increase.

Gagan Thareja: Yes. Sir, you were talking about the margins and the line got disconnected. So if you could just repeat what you were saying?

Manish S. Nuwal: Yes. I will repeat again. So as I shared that as we move towards crossing Rs. 300 Crores in this year or reaching to Rs. 300 Crores, next year Rs. 500 Crores. So as we go towards that range of Rs. 1,000 Crores, Rs. 1,200 Crores, our margins will definitely improve from current level of 21%, 22% to almost 24%, which is our expectation.

Gagan Thareja: On the staying on defense, is the working capital conversion in defense very different from your other businesses? Your current working capital, as you pointed out, net working is 92 days. Is it longer in defense in terms of receivables?

Nilesh Panpaliya: Based on our recent experiences, we have not seen that it is pretty different from all our regular industry. But like we have been saying with all the investors in various conference calls, that for each order, whenever we start, definitely, initially for the first 5, 6 months, there is always a paying off between higher working capital like this. But as it stabilizes then it almost reached to 1,900 days level.

Gagan Thareja: The government is also more talking about some restructuring of the Ordnance Factory Board. And also sort of saying that the nomination-based orders that they have been deferring so far may possibly not exist, if I have understood it correctly. I just wanted your thoughts and comments on how should we integrate what the government is trying to do with the Ordnance Factory Board? And what are the implications for you, therefore?

Manish S. Nuwal: We have also come across that kind of policy paper where the government is planning to corporatize the Ordnance Factory Board. So that will definitely help our mission as far as our mission industry is concerned. So, once they have a proper mechanism to evaluate the cost matrixes, so definitely, efficiency should go up and it will help our nation as well. But as far as our private industry is concerned, once we have to compare, when buyers, they compare the pricing from a private and a government, definitely, it will help the private industry in the long run but as far as nomination and nomination basis ordering is concerned, we believe that for another couple of years, it will keep going like this because the whole ecosystem to produce a particular product, which was already been developed in years or last many years, is difficult for any private sector can just come in and replace any existing supply chain support. So it will take some time.

Gagan Thareja: Okay. One final question, if I am allowed. You have given a fairly elaborate picture of how you see the defense part of the business evolving in a medium-term time frame over a 3- to -5 year. Likewise, it would be very helpful if you could give us a similar sort of a perception from the management of how they see this year the CIL, the Singreni and the other international pieces of the business evolving over a 3 to 5 year timeframe, it would be very helpful, Sir?

Manish S. Nuwal: Like you said, the outlook on overseas and exports and other sectors, we have shared in our 2017-2018 annual report that by 2020, we are likely to achieve certain numbers. So we are moving in that direction, and we are not debating it. But due to certain global factors and some Indian challenges in Coal India sector which is because of lack of overburden removal growth our targets have been shifted from 2020 to probably next year, 2021. So, I believe that, that much clarity we have already provided.

Moderator: Thank you. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Thanks for taking my question. As a follow-up of the previous question, Mr. Manish, you mentioned that as defense ramps up to, say a Rs. 500 Crores kind of a topline, the margins of the business will move from 21%, 22% to 24%. Is the understanding right?

Nilesh Panpaliya: What he mentioned was that that going there, as you move from 300 to 500 and ahead till the time we reach 1,000 and 1,200, then the margins will reach to that level.

Abhijit Mitra: Of the entire business, right?

Manish S. Nuwal: The entire business.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would like to hand the conference over to the line of management for closing comments.

Manish S. Nuwal: Thank you, everyone, for joining on this concall. Hope we have been able to answer your queries to satisfaction. If you still have something more to ask, you can email us and then we can even have a one-to-one call and give answers to all your queries. Thank you. Thank you so much. And I also thank KRChoksey and the operator for taking up this conference call and doing all the help they put for us.

Moderator: You are welcome, Sir. Thank you.

Moderator: Thank you. On behalf of KRChoksey Shares & Securities that concludes this conference. Thank you for joining us, and you may now disconnect your lines.