

Results Review

Premier Explosives Ltd

Bloomberg Code: PRE IN

India Research - Stock Broking

BUY

Order Book Build-up Offers Revenue Visibility

Premier Explosives revenue grew by 21% in Q3FY18 on the back of strong execution; however, pricing pressure in the Coal India contract, delay in pass-through of higher Ammonium Nitrate (AN) prices impacted profitability and earnings dropped by 37% YoY to Rs.1.5 in Q3FY18. Going forward, we expect with large order execution in the Defence segment like Shafts & Flares, Akash propellant, PSOM-XL and relatively stable AN prices could boost earnings in next two years to Rs.18.7 by FY20E. We assign **'BUY'** rating on Premier and value the stock at 24x FY20E EPS for a target price of Rs. 449.

Order book improves in Q3FY18: Order backlog improved by 31% on the back of inflows and backlog reach Rs. 3,360 mn and defence order book accounts for 32% of overall backlog by Q3FY18. We expect large order inflows in the defence segment for products like Shafts & Flares, Akash propellants, PSOM-XL which improves visibility going forward. However, Coal India contracts are expected to be tendered out with extremely thin margins going forward as well.

Revenue to grow at a CAGR of 15% in FY19E-20E: Revenue for Q3FY18 grew by 21% to Rs.675 mn and Defence segment revenues grew by 64% to Rs.187 mn. Services grew by 21% and Explosives segment grew by 8% in Q3FY18. Given the order backlog we expect defence contribution to improve in next two years. We expect revenue to grow by 15% CAGR in next two years and reach Rs.3472 mn by FY20E.

Margins to improve during FY19E-20E: Operating expenses increased by 26% in Q3FY18 despite higher contribution from high margin defence segment. Pricing pressure in the Coal India contracts impacted the profitability significantly and as a result of it PATM dropped by 219bps to 2.4% in Q3FY18. We expect this situation to correct itself as the price resets clause kicks-in by March 1st and stable AN prices, apart from higher contribution from Defence segment, PATM could improve by 248bps to 5.7% by FY20E.

Valuation and Risks

Premier over the years has carved a niche for itself in the defence segment and going forward this segment could be key beneficiary of products that are expected to enter into continuous production phase. We believe earnings to expand in next two years and we assign **'BUY'** rating on the stock valuing it at 7 year cycle average of 24x FY20E EPS of Rs.18.7 for a target price of Rs. 449. However, lower order booking in the defence segment and adverse movement in AN prices could impact margins going forward.

Exhibit 1: Valuation Summary

YE Mar-Standalone (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1850	2307	2626	3033	3472
EBITDA	176	284	205	326	395
EBITDA Margin (%)	9.5	12.3	7.8	10.7	11.4
Adj. Net Profit	56	148	85	154	199
EPS (Rs.)	5.3	13.9	8.0	14.4	18.7
RoE (%)	8.9	14.6	4.8	6.8	8.2
PE (x) [*]	71.7	25.2	47.1	26.1	20.1

Source: Company, Karvy Research, ^{*}Represents multiples for FY16 & FY17 are based on historic market price

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Recommendation (Rs.)

CMP (as on Mar 5, 2018)	376
Target Price	449
Previous Target Price	393
Upside (%)	19

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	4000 / 61
52-wk High/Low (Rs.)	539 / 328
3M Avg. daily value (Rs.mn)	11.7
Beta (x)	1.1
Sensex/Nifty	33747 / 10359
O/S Shares(mn)	10.6
Face Value (Rs.)	10.0

Shareholding Pattern (%)

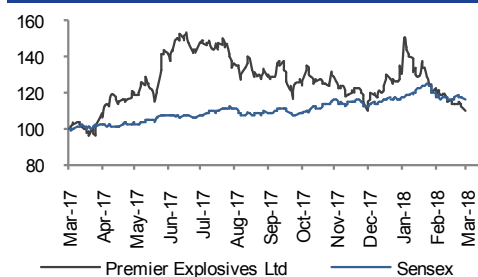
Promoters	40.4
FII	0.7
DII	17.5
Others	41.4

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(10)	(1)	(16)	10
Relative to Sensex	(6)	(4)	(20)	(6)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; ^{*}Index 100

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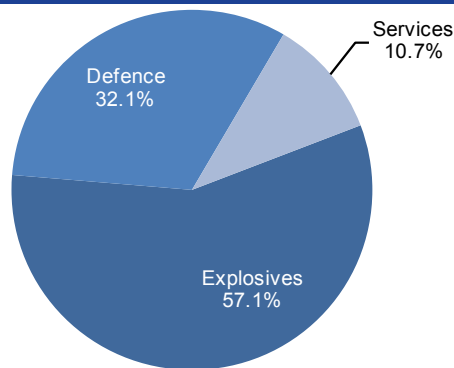
Exhibit 2: Order Book Build-up Offers Revenue Visibility

YE Mar - Standalone (Rs. Mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	9MFY18	9MFY17	YoY %
Turnover (Net)	675	560	20.6	582	15.9	1826	1579	15.7
Op Expenditure	636	506	25.9	531	19.9	1684	1429	17.9
EBIDTA	38	54	(29.0)	51	(25.1)	142	150	(5.1)
Depreciation	9	8	11.2	9	(0.6)	27	25	10.7
EBIT	29	46	(36.2)	42	(30.4)	115	125	(8.2)
Interest	11	10	5.2	14	(23.1)	36	28	29.2
Other Income	6	1	340.1	6	5.6	15	4	261.2
PBT	24	37	(34.3)	34	(27.6)	94	101	(7.6)
Tax (Net)	8	11	(27.5)	10	(20.2)	31	33	(7.5)
PAT	16	26	(37.3)	23	(30.8)	63	68	(7.7)
EBITDA Margin (%)	5.7	9.7	(398) bps	8.8	(312) bps	7.8	9.5	(170) bps
EBIT Margin (%)	4.4	8.2	(387) bps	7.2	(289) bps	6.3	7.9	(164) bps
PAT Margin (%)	2.4	4.6	(219) bps	4.0	(160) bps	3.4	4.3	(87) bps

Source: Company, Karvy Research

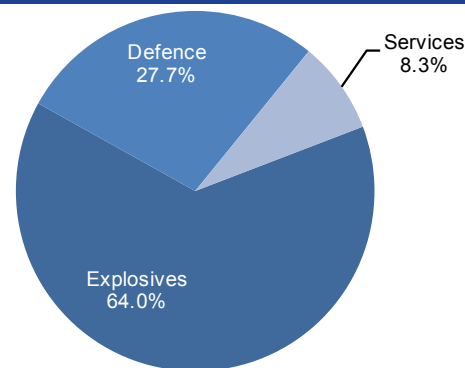
Quarterly Segmental Revenue Break-up

Exhibit 3: Q3FY18 Order Backlog



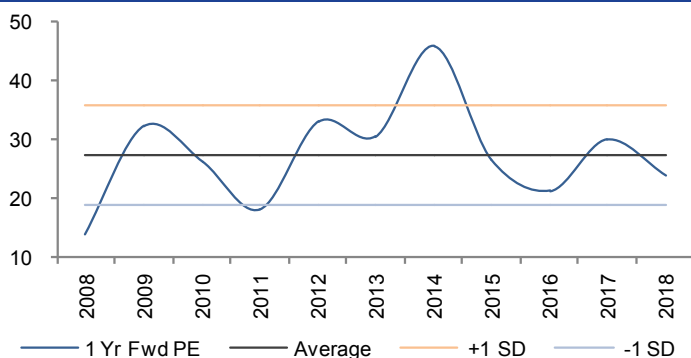
Source: Company, Karvy Research

Exhibit 4: Q3FY18 Revenue Break-up



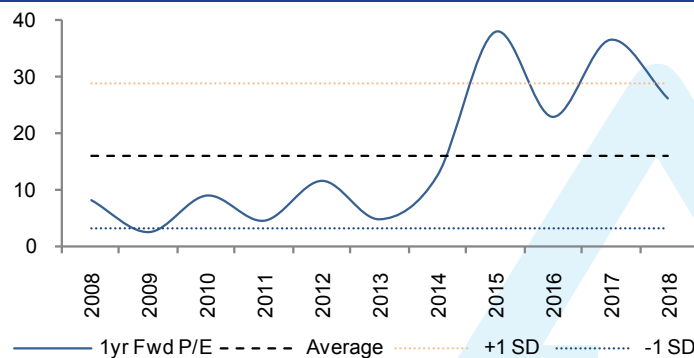
Source: Company, Karvy Research

Exhibit 5: S&P BSE Capital Goods Index - PE Valuation



Source: Bloomberg, Karvy Research

Exhibit 6: Premier Explosives - PE Valuation



Source: BSE, Karvy Research

Standalone Financials

Exhibit 7: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	1850	2307	2626	3033	3472
Growth (%)	23.7	24.7	13.8	15.5	14.5
Operating Expenses	1674	2023	2420	2707	3077
EBIDTA	176	284	205	326	395
Growth (%)	40.4	61.3	(27.8)	58.8	21.4
Depreciation & Amortization	33	35	38	42	44
EBIT	143	249	167	284	352
Other Income	5	7	13	10	10
Interest Expenses	37	44	52	63	63
PBT	83	218	128	231	299
Tax	27	71	43	77	100
Adjusted PAT	56	148	85	154	199
Growth (%)	7.9	161.3	(42.3)	80.3	29.5

Source: Company, Karvy Research

Exhibit 8: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Cash & Inventories	66	51	667	(5)	(30)
Sundry Debtors	424	572	734	623	704
Inventory	223	335	402	392	461
Loans & Advances	89	104	104	104	104
Investments	53	53	107	107	107
Gross Block	636	1253	1373	288	1085
Net Block	395	1004	1085	2133	2200
CWIP	24	37	37	37	37
Miscellaneous	24	49	49	49	49
Total Assets	1297	2205	3185	3440	3632
Current Liabilities & Provisions	568	697	754	819	820
Debt	3	66	53	97	99
Other Liabilities	41	34	149	149	149
Total Liabilities	612	797	956	1065	1068
Shareholders Equity	89	89	106	106	106
Reserves & Surplus	566	1284	2073	2218	2407
Miscellaneous	31	36	50	50	50
Total Networth	655	1372	2179	2325	2514
Total Networth & Liabilities	1297	2205	3185	3440	3632

Source: Company, Karvy Research

Exhibit 9: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT	83	218	128	231	299
Depreciation	33	35	38	42	44
Interest	37	44	52	63	63
Tax Paid	(34)	(54)	(43)	(77)	(100)
Inc/dec in Net WC	9	(282)	(197)	145	(130)
Others	(31)	(37)	102	(10)	(10)
Cash flow from operating activities	98	(77)	81	393	165
Inc/dec in capital expenditure	(51)	(116)	(120)	(1090)	(110)
Inc/dec in investments	(4)	(10)	(54)	0	0
Others	14	29	13	10	10
Cash flow from investing activities	(41)	(97)	(161)	(1080)	(100)
Inc/dec in borrowings	36	166	13	85	(18)
Issuance of equity	0	0	726	0	0
Dividend paid	(42)	(1)	(4)	(8)	(10)
Interest paid	(22)	(23)	(52)	(63)	(63)
Others	0	0	14	0	0
Cash flow from financing activities	(27)	142	696	15	(90)
Net change in cash	30	(32)	616	(672)	(25)

Source: Company, Karvy Research

Exhibit 10: Key Ratios

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin (%)	9.5	12.3	7.8	10.7	11.4
EBIT Margin (%)	7.7	10.8	6.3	9.4	10.1
Net Profit Margin (%)	3.1	6.4	3.2	5.1	5.7
Dividend Payout ratio (%)	74.0	0.6	5.0	5.0	5.0
Net Debt/Equity (x)	0.24	0.24	(0.12)	0.21	0.19
RoE (%)	8.9	14.6	4.8	6.8	8.2
RoCE (%)	17.0	19.0	7.7	10.5	12.1

Source: Company, Karvy Research

Exhibit 11: Valuation Parameters

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EPS (Rs.)	5.3	13.9	8.0	14.4	18.7
DPS (Rs.)	3.9	0.1	0.4	0.7	0.9
BVPS (Rs.)	61.5	129.0	206.1	219.9	237.6
PE (x)*	71.7	25.2	47.1	26.1	20.1
P/BV (x)*	6.2	2.7	1.8	1.7	1.6
EV/EBITDA (x)*	20.0	12.1	18.2	13.8	11.4
EV/Sales (x)*	1.9	1.5	1.4	1.5	1.3

Source: Company, Karvy Research, * FY16 & FY17 multiples are based on historical prices on year ending

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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