"Pennar Industries Limited Q1 & FY'24 Earnings Conference Call"

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MODERATOR: **MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Pennar Industries Limited Q1 & FY'24 Results Conference Call hosted by PhillipCapital (India) Private Limited.

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 the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

This conference may contain forward-looking statements about the company which are based on the beliefs, opinion and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapial (India) Private Limited. Thank you, and over to you, sir.

Vikram Suryavanshi: Good morning and a very warm welcome to everyone. Thank you for being on the call of Pennar Industries Limited.

We are happy to have with us the Management of Pennar Industries today for a question-and-answer session with the Investment Community. Management is represented by Mr. Aditya Rao – Vice Chairman and Managing Director; Mr. Shrikant Bhakkad – Chief Financial Officer; Mr. Manoj – Head (Corporate Planning); and K. M. Sunil – VP (Investor and Media Relations).

Before we start with the question and answers session, we will have some opening comments from the management. Now I hand over the call to Mr. Aditya for opening comments. Over to you, sir.

Aditya Rao: I am grateful for the moderators and all of our stakeholders present on this call today for their participation in today's discussion on Pennar Industries Q1 FY'24 financial results.

We will begin by discussing our profitability followed by our liquidity and growth. Subsequently our CFO Mr. Shrikant will share his insights on our financial performance. After his presentation we will be open to answering any questions you may have.

So, let me start off with a summary. In the first quarter we reported net sales amounting to INR 748.9 crore with a PBT of INR 29.5 crore, this reflects a 7% increase in our net sales and a substantial 57.2% rise in PBT. Our cash profit for the quarter was INR 38.2 crore compared to INR 29.9 crore in the Q1 of last year. The quarter is in line with our forecast and we are confident that our profitability will continue to grow and scale in the coming quarters.

Now for Q1 our PBT as I mentioned stood at INR 29.5 crore reflecting a margin of 3.9%. In line with our commitments, we anticipate enhancements in our PBT margin as we shift from revenue

with lower margins to revenues that offer higher margins and superior capital efficiency. So, our cash PAT for Q1 amounted to INR 38.2 crore and this was achieved at a margin of 5.1%.

As of June 30th, the working capital days stood at 74 days. The annualized ROCE for the quarter was 21.7%. Now we had previously communicated our goal to surpass the ROCE of 20% by March 2023 which we had achieved and we are pleased to announce that we continue to trend above that. Now for the financial year we aim for a ROCE to 22% and our long-term target for our ROCE is at 25%. We have set a target of achieving 72 days in working capital by September and we are confident we will be able to achieve that.

Moving into the new quarter and the fiscal year, Pennar's primary growth catalyst are projected to be our PEB division, our U.S. subsidiary PGI, our body in white business, and our industrial components business, specifically hydraulics revenue which will scale well over the course of this year. So, our ongoing initiatives in hydraulics, large diameter tube and our module business, are in progress and we are optimistic that once finalized these business units will play a pivotal role in driving our revenue growth for this year and for the next year.

In conclusion that encapsulates our performance for the quarter, highlighting our profitability, liquidity and growth trajectories. I would now like to pass the conversation to Shrikant for his insights.

Shrikant Bhakkad: Welcome to the shareholders on the first quarter of FY'24 earnings call.

The key matrices as you have already would have seen the increase in terms of revenue by 7%. EBITDA by 32%, PBT by 57% and cash part has increased by 28%. With our continued focus to improve the margins and cut down on the sales with the lower margin sale, we see the increase in the profitability and the revenue remains flat, because of the decrease in the sales of certain margins, certain jobs which we are not doing.

Our interest cost has been high due to the increase in the working capital in the business which has slightly increased. And we expect this to moderate over the next two quarters, definitely by next quarter but over the next two quarters.

Our other income includes deposit income, income from mutual incentives, write back and the collection of old receivables. Salaries have increased due to the employment of higher manpower in our higher growth verticals which are as BIW, Boiler, PEB and also due to the increase in our Ascent revenue and increase in the business.

With this I would like to hand over the call to the moderators for the Q&A sessions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dilip Kumar Sahu, an individual investor. Please go ahead.

Dilip Kumar Sahu: So, the first question Mr. Aditya is regarding the steel tubes business, for quite some time we have been talking about the scale up in this business and if you look at the sector as a whole and the participants in that everybody I think did extremely well. So, my question is that why is our tubes business in general and steel tubes is a very small question I understand, is not really reflecting the market optimism, that's question #1.

And question #2 is, for quite some time we have been talking about this capital efficiency, 3% interest rate, 75 working capital days etc, etc. but it keeps on, there is no stability in that number, sometimes we do well, sometimes we blip of course there are reasons always, but somehow we are not there in a stable capital efficiency metrics. That is my second question, if you can just go through and can give a detail about the Ascent business in terms of what is happening there, what is the numbers, a little bit in detail so that will help, these are my questions.

Aditya Rao: With regards to your question on our tubing business unit, you are absolutely right, there has been a very moderate level of growth in profitability and not much growth in revenue as far as our tubes business is concerned. The reason for that is we have been prepping our entry into the large diameter tube business which we believe can increase our revenue by a significant amount. That project is currently underway, it will be commissioned over the next few quarters. I will have an exact date for you as we get closer.

But you are right in that, what we have seen in the market by other tube manufacturer are scaling quickly, we have not followed that, because we have not quite frankly expanded capacity or commission expanded capacity. We are now doing that and we are doing it for a product range which is higher margin than our existing tubes operating margins and also has tremendous export potential as well.

It also has some applicability internally where our hydraulics business as an input raw material can take some of those large diameter tubes as well. So, I am confident that this business is going to scale in the future. We have defined steel tubes as one of our major growth verticals over not just one year, but over the next five years. So, we will be completing our capital deployment in this business and we will make sure we will scale.

From a capital efficiency point of view, you are right. Interest cost this quarter trended higher, this is a temporary output of us having stocked up on a certain larger order book, a certain amount of current asset. We expect this to moderate very quickly. I mean it's already frankly moderated over the last couple of months since the end of June. And we expect this by next quarter you will see a very significant moderation in this number.

Additionally, from a ROCE point of view, we do target as I said above 20%, in the longer term while you may see hysteresis on a quarter-to-quarter annualized basis, I can commit to you that we are targeting 25% and year-on-year you will only see our ROCE, our Return on Capital Employed and our Return on Equity increasing. We have now reached a double-digit return on equity in as of this quarter annualized and we expect to be able to improve on that as well.

So, capital efficiency, within a quarter hysteresis as we look at acquiring current assets for certain reasons, maybe with raw material price increases or to head off any price increases or supply availability issues, you may see some but overall, I can commit to you above 20% annualized we will always meet. And our consistent improvement over year-on-year to 25% is also something that I can commit. That's the capital efficiency metric answer to your question.

Dilip Kumar Sahu: Specific to Ascent business now the thing that I wanted to know is, obviously we have extremely bloated people cost in Ascent business with anticipation of both profitability and volume of business. So, is the business now profitable #1 and #2 what kind of optimized revenue you are looking from Ascent to justify the kind of investment both in people as well as in fixed capital that you have spent?

Aditya Rao: So, Ascent which is our subsidiary in the U.S. currently is our most profitable business. It comprises about 30% of our overall yearly profit and that trend is supposed to continue, just one business unit doing it. And from a growth aspect they are continually improving their profitability. This quarter compared to last quarter you may see, I mean Q1 to Q1 because we did have a large order go out last year in the comparable quarter. But if you compare again, if you compare the year in question you will see consistent revenue rise, consistent profitability rise. The reason for that is Ascent's addressable market in the U.S. is much larger than our metal buildings market in India. In India if it's about one or two billion, in the U.S. our addressable market is about 5 to 6 billion. And it's growing as well, non-residential construction in the U.S. is doing very well right now.

Our order books also for Ascent are on the upswing with, we are right now probably at a peak order level, higher than it's ever been in excess of about $45 million. So, I would not worry about Ascent, I think it's a high margin business, it will continue to be a PBDT of 10% or 10%+ plus also. And I am confident that we will continue to scale. On the longer term over the next few years, you can count on Ascent growing by double digit rates every year, that much is for sure on revenue --

Dilip Kumar Sahu: So, this is regarding the services business, your presentation shows 29. some crores which I think is very high compares to Rs. 50 crore to Rs. 60 crore annually we used to do. So, it is from one-off this quarter in the services business in Europe or is it a run rate we can just multiply by four and the EBITDA growth would be fair.

Aditya Rao: No it's not a one-off, I think one of the things you can take to the back our profitability will continue to increase. We are not seeing any, in our modeling, in our forecasting we are not seen any possibility or decline on an overall basis. But also specifically on engineering services, we expect this business to do very well for us over the next few years. This is not a one-off in fact you will see increases over the next few quarters in our engineering service profitability.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Arrow Investments. Please go ahead.

Nilesh Shah: I have two questions. The first question is with regard to the Raebareli plant, so what is that plant coming up for, for which product category? And what is the CAPEX involved in setting up this plant? And did we have this plant already on our books or did we make a fresh purchase towards it? So, total cost towards the Raebareli plant that is one?

And the second I would like to know the input cost that are in cold-rolled steels that is right now. If you can throw some color on what the trajectory of the input costs that are going to happen for the coming year.

Aditya Rao: Raebareli project is for our pre-engineered building capacity expansion into the North of India, right now our addressable markets for our PEB metal buildings business are West and South, our north revenue is near zero that's because for a metal buildings plant you can really only go from about 700 to 1000 kilometers radius around the plant after which it becomes prohibitively expensive. Now to combat that and to make sure that our addressable market grows, we have implemented the Raebareli plant. It will in the next couple of quarters come online and it will dramatically improve our revenue in the PEB business.

The land for that was acquired a long time ago actually because our intent was always to have a North India plant. But judging by the strength of the order book that we have, we are in a position now we are affectively refusing orders right now, because of that reason and making sure that North India orders remain a significant portion of our revenue or become a significant portion of our revenue rather, we are setting up that plant. The total CAPEX we had envisioned is about Rs. 40 crore for that, all inclusive. And we expect a revenue increase from that to be at a pretty high asset flip and we expect two-year payback period on our investment for that project.

Nilesh Shah: Are we seeing any marginal cost pressures on the input materials of steel?

Aditya Rao: For cold-rolled steel we are actually seeing a decline and flatness right now. Our indicators from our supply chain is that they are trying to increase pricing by about Rs. 1,800 per ton, I believe that would not the possible. In fact, there is some optimization we are looking at in terms of importing steel internationally which is actually allowing us to actually maybe perhaps even reduce our input cost. So, we do not project a reduction in our selling price per ton right now if that's the question. And our input cost will not increase.

Nilesh Shah: You just gave an indication in your speech about 3.8% as our margin. So, how sustainable is this going forward for the year? For the quarter we had 3.8 or something I think you mentioned 3.8.

Aditya Rao: I think you can continue to expect PBT value increases and PBT percentage margin increases that is s stated goal for us to improve our PBT percentage margin. Let me speak of what's going to happen for the next quarter for the financial year, you will see improvements on our current margins in the next quarter. For the financial year in question, you will see an improvement from last year on margins, yes so I think that we can commit.

Nilesh Shah: And just the last point, in terms of what is the current order book size that we have to be executed over the next quarter?

Aditya Rao: Yes for the overall order book I will just hand it to Shrikant to describe what it right now.

Shrikant Bhakkad: The overall order book for the PEB is close to Rs. 714 crore, Railway is Rs. 110 crore, Ascent we are standing at USD 45 million. Not all our businesses comes with an order book, but some of these businesses comes with an order book backlog and Boilers business of course with close to around Rs. 130 crore.

Nilesh Shah: But this is for the next quarter, coming quarter to be executed?

Aditya Rao: Yes this is generally contract to get it executed in a period of sluggard period in a three months to six months period while Railways will take little, longer time, PEB are a little shorter period.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I have a few queries. So, you did mention in your opening remark that you are letting go revenues with lower margins right. So, how do we see the growth then I mean are we compromising on the growth part or how do we see the growth that we kind of envisage this year?

Aditya Rao: So, if you are talking of revenue growth, our revenue this year will be higher than our revenue last year. But obviously on a quarter-on-quarter basis, you may see as we exit some of this business. We have exited our Solar MMS business; we have exited because we felt there is no long-term viability for that business. We have exited our Solar EPC business. We are on the cross of exiting the water EPC business. These are lower margin, lower capital efficiency businesses for us at least, there may be others who are doing a good job with them. We want to stick to business verticals which have large addressable markets and large scalability.

So, the output that we are focusing on is one where you have more capital devote to these businesses which can scale. And we firmly believe that the only reason companies fail is it either they have bad addressable markets or they have bad assets. If our addressable markets which we define as "activity is high" then our order booking will be high, then our revenue will be high. If our assets are good then we make a good quality product and that would include human assets in that, we will design products well and we ultimately will be able to operate in a way that our profits are good.

So, that's the driving alignment the way we are thinking about this. We have no concerns about our ability to scale revenue. As of right now we are putting in plans so that we can from our current gross sales last year about Rs. 3,500 we want multiples of that as our revenue over the next few years. So, we are not going to be shy on revenue growth. It is important to consistently grow revenue to also grow profitability. And while you may have moderate growth like I think

this quarter's growth was 7% on gross sales. You may have that from a quarter-to-quarter basis but on a financial year basis and definitely on a year-to-year basis our plans for revenue growth are solid, are set, our pre-engineered building business for example will grow at double digit rates. Our industrial components business will also grow towards the latter half of the year, hydraulics is doing quite well, our BIW business may double in size, our U.S. business is growing, our Railways business too has seen as an increase.

I can without any reservation commit to you that our story is a revenue growth story and a profit growth story. We are not going to be stuck at the revenue level, if that's the question you are asking or we are not going to see moderation on a year basis, you can expect growth.

Deepak Poddar: So, on a year basis maybe what mid-single digit to high-single digit growth would be the range we might be looking at, right?

Aditya Rao: For this financial year I would say yes please do assume that, but for the next financial year; not on revenue, on profitability growth will be very high, because not only are we replacing old revenue, we are growing, what's growing is growing quickly enough to actually deliver overall growth. But from a profit point of view, because of margin expansion, you will see far higher growth rates, double digit growth rates. I think that's what we said last year.

Deepak Poddar: I am trying to understand the revenue front. Profit growth obviously should be higher because you did mention that PBT margin should be higher on a YoY basis, right. So, high single digit is a fair estimate, right, I mean in that range.

Aditya Rao: Yes I would prefer to continue to give quarter-on-quarter projection, so but yes you can assume that for the year that is what we are looking at. There may be some improvement on that towards the end of Q4 when our new Raebareli plant comes online, our hydraulics capacity comes online, our aerospace capacity comes online, Ascent is going through CAPEX phase right now that also gets commissioned in --. So, you may see some higher revenue growth rates in Q4, but over the next few quarters, next financial year for the financial year you will see growth and revenue growth is a very important part of our overall growth strategy.

Deepak Poddar: And secondly I was looking for some thoughts on your Railways business scale up, because Railways are giving lot of orders right and our order book of Rs. 110 crore looks very small in the kind of orders they are giving. So, are we looking to scale up this Railway business or do we have the capability to do that. So, any kind of thought process in that area would be helpful?

Aditya Rao: Right now they are not looking to scale up our Railways business in the sense that what is there is there, we have an asset block so you will see a certain percentage growth rate in our Railways business. But it is not a focus area for us. You are not going to see this business 3x or 4x over the next few years.

The businesses which we are looking to grow at a very fast clip is our pre-engineered buildings business, our hydraulics, our boilers business and our BIW. Engineering services also while it is low in revenue but it operates at a 20% PBT also will see very high growth rate. So, these six business units are the one which will drive our future growth. Railways will not reduce or die but we are not focusing on that area as a growth area.

Deepak Poddar: But what is the reason for that?

Aditya Rao: Just the way we are structured, I think there are many opportunities Pennar's footprint, our technology footprint gives us access to automotive, infrastructure, yes Railways and Aerospace, but for anyone capital is always going to be a constraint and I think it's better for us to focus on these four, five business opportunities and make sure we hyper scale them as opposed to trying to grow all eight or nine of our business verticals, that's the thinking. It is not a judgment on Railways as you yourself have said there are a lot of people who have are very large order books in Railways, but we prefer the private sector, we prefer the capital goods sector.

Deepak Poddar: My third question is on your PAT; I mean we have the aspiration of 5% PAT margin so what is the sort of timeline we are looking at to achieve those sort of margin?

Aditya Rao: So, you will see steady creep up quarter-on-quarter on our PAT percentage margin. On a timeline for 5%, I do have the answer, but I don't know if it will be a forecast or let me get back to you on this. But it's not multiple years from now, it's quite soon. But please excuse me if I don't give you an exact quantum.

Deepak Poddar: I mean one to two years would be a fair range, I mean?

Aditya Rao: 100%, yes, that's for sure.

Deepak Poddar: And your other income I mean it has been quite volatile I mean how do we see that, in some of the quarters we get what Rs. 2 crore to Rs. 3 crore of other income and some of the quarters we get Rs. 10 crore to Rs. 12 crore of other income so --?

Aditya Rao: It is just an attribution; I think we discuss with our auditor what they want us to use in the revenue attribution. My request would be that you combine other income in regular sales and then look at the overall number. I agree with you that it's very confusing when order income moves around so much. But effectively a lot of the classification also has to do with what is the concern, obviously it is not just interest income there is lot of other things in that. My request would be that you give us the leeway to add other income and look at the total income because that's how we see it as well. And the attribution of it is, is very volatile based on what our statutory auditor says is the way to do it. So, we request your understanding on that.

Deepak Poddar: But what is the nature of this other income, I mean how much would be the interest income and what is the nature of other part of this other income?

Aditya Rao: Our interest income would be small about Rs. 2 crore. Other part of it can include scrap sales, it can include incentives that we get its foreign exchange fluctuations gets accounted there, FOREX fluctuations all of those things which is why if we have a certain product which goes high in a quarter we look at it on an overall basis but attribution basis, I mean by accounting standards we need to put if there is FOREX fluctuation, if there is interest income, if there is a scrap sales. So, there are a lot of components in that that's the reason it moves around a lot.

Deepak Poddar: So, how do we calculate ROCE, I mean because you said that FY'23 we had a ROCE of about 20%. But if I see your debt and equity in FY'23 our total capital employed is about Rs. 1400 to Rs. 1500 crore. So, I am getting a ROCE of about 10%, 11% for FY'23. So, how do we calculate ROCE of 20%? So, what do we exclude in capital employed?

Shirkant Bhakkad: Basically, we take EBIT and divide it by the capital employed, basically total assets minus the current liabilities.

Deepak Poddar: Okay, because I mean ideally we take what debt and equity, right so that is about Rs. 1,400 crore total employed --

Shrikant Bhakkad: Yes, you can take total assets minus the current liabilities and that's how you calculate the capital and debt number, Rs. 949 capital employed.

Aditya Rao: Yes, so that's what you are taking as Rs. 949. Rs. 949 crore is what we are taking. So, I think we are not removing the current liabilities, that's probably why --. I think you are taking total assets; I think they are removing the current liabilities which gets us to Rs. 949 crore that's the difference of the calculation. And actually, our calculation is the approved one if you want to call it, because that's the actual capital that we are actually deploying in the business.

Moderator: Thank you. The next question is from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.

Keshav Garg: I want to take from the previous participant's question about Return on Capital Employed, I don't know why you are taking out current liabilities, actual the calculation should be total asset by EBIT, EBIT divided by total asset. We should add debt plus our net worth and minus whatever cash that we have. So, it should come to around Rs. 1,263 crore for FY'23. And on that the EBIT is basically Rs. 235 minus the depreciation of Rs. 66 crore which is around Rs. 169 crore. So, the return on capital employed is actually 14% and that is the normal way of calculating across companies.

Aditya Rao: Okay, we have used this for our last quarter so if you would like us to change and start working on that calculation we can do that as well.

Keshav Garg: And why have the margins declined quarter-on-quarter from 10% to 8%, I am talking about Q1 versus Q4 and despite the increases scale of operations.

Aditya Rao: So, we do have some orders that come in the fourth quarter which tends to be higher margin. These include our BIW tooling revenue which comes in, gets recorded once a year so that tends to push up Q4 margins. But on an overall year basis obviously in this year too we will have the same impact of some of our revenue for BIW tooling projects getting recorded in their entirety in the fourth quarter. If you were to look on a year-to-year basis you will not see a decline in our margins.

Keshav Garg: And if we look at like you mentioned that the aspiration is to reach 5% net profit margin and that too in the let's say in the short to midterm of let's say over the next two years. But if you look at our current net profit margins, they are approximately 2.8%. So, that means we are almost talking about doubling the net profit margins in the next two years. So, you think that that's a reachable goal?

Aditya Rao: Yes, we do believe that to be a reachable goal on the back of us focusing and shifting our revenue attribution to higher margin businesses that plays a massive role, frankly that's the largest role. In addition to that when you scale revenue a little bit which we may not see a tremendous amount of that in the next quarter or two, but for the whole year and of course the next year what we do definitely have a lot of confidence in is that revenue scale up combined with which makes your fixed cost of course you can distribute it over a larger asset based that combined primarily with focusing on higher margin products, will ensure that our net profit margins increase dramatically so that we are confident of.

Keshav Garg: And lastly we are doing share buyback every year and that's the really great. And last year we did in September '22 so one year is about to get over, so I hope that we again do some share buyback especially considering the great plans and the bright future that we are projecting so that's the request from all the shareholders.

Aditya Rao: Thank you for that and we do take that as you must be aware we have done buybacks many times over the last 10 years I think we would have done it five buybacks if not more. But the Board takes calls on corporate actions on a very frequent basis, we meet very often and we meet during the quarter. As and when the Board determines the timing is right for another buyback, we will absolutely communicate that to shareholders. But we agree with you that buybacks are a good instrument for retiring low-cost equity.

Keshav Garg: One thing SEBI is phasing out open market buyback, so this is the last open market buyback. And henceforth from next year onwards we can only do a tender offer wherein a premium needs to be paid over the market price. So, you can just keep that in mind. Thank you very much.

Aditya Rao: We will do that and whenever we have done a buyback we will always done it at a premium to what we have offered, I mean there is a range that is offered and that has always been market price ++. But I will try to educate ourselves on any precise change in rules before any corporate action declaration is made.

Moderator: Thank you. The next question is from the line of Dilip Kumar Sahu, an individual investor. Please go ahead.

Dilip Kumar Sahu: Few questions on, a lot has been talked about 5% PAT in two years, if I look at the products versus project business the PAT are very different right. So, are you saying that you are going to restrict the project business going forward to increase the PAT margin or you think that we will grow at 18%, 19%, 20% and still meet PAT of 5%?

Aditya Rao: So, project business, no we are not saying that at all. I think our project business which is pre-engineered buildings is one very big component of that will scale. We believe that there is a very high addressable market for us and as I had mentioned on the call we are setting up a new plant in North India, we are expanding capacity in Hyderabad and in Chennai for our pre-engineered buildings. We are also expanding capacity in our U.S. plants right now. So, our project businesses will scale.

Yes, you are right that right now project businesses comes under a lower PBT than product, but what is going to happen is as the revenue of these businesses increases, I think the entirety of a project business also moves into the high PBT margin. And the combination of all of our project businesses will trend by itself above 5% PAT. So, for example we are projecting in the U.S. that we will reach 10% PBDT. So, no challenge there, we will be able to grow our projects business and make sure that we take care of the bottom-line. So, we are not saying they are going to decline.

Dilip Kumar Sahu: My second question is regarding steel business expansion in Velchal, we have been talking for quite some time almost a year or so on starting this project and you have the land, this is obviously business where there is demand is far ahead of supply. So, is there some seriousness in terms of because everybody is coming with capacity so we should be coming with the capacity when the demand has fallen short, right. So, that would be double whammy in terms of negative side any thoughts on that stainless steel expansion and investment? And in general what is the investment outlook for the next 24 months?

Aditya Rao: So, two parts, just to refer back to your last question, I don't want to hurt myself on this, but actually our competitors may do higher margin than us, that's why we are improving now because have we decided to put it on, the largest company I won't name names but the largest pre-engineered building company in India who are 2.5x our size in terms of revenue actually has an 11% PAT. So, it is not going to be difficult for us to reach 5% plus for our projects business. Regarding Velchal did you, by stainless steel do you mean our stainless-steel tubing?

Dilip Kumar Sahu: Yes stainless tube, I think you had plans of expanding this, in a very small capacity in stainless SS tubing. And there was a plan if I remember correctly I mean one and a half years back to expand that in Velchal to substantial capacity.

Aditya Rao: We did but I mean our current capacity of stainless-steel tubing in Velchal is not very high as it even after the capacity expansion is not very high. Right now, for tubes we are focusing on large diameter tube which would be 8 inch and above tubes, we can use that for torque tubing, we can use that for hydraulics, we can use that for automotive as well. That is a massive high margin market that we want to cater into. And it's right now served by very few players in India and even internationally.

As you may be aware we supply a lot of tubing to the U.S. as well from our India plants. So, we also want to grow that aspect of it. SS tubing continues to be a focus area for us, but we are not going to be deploying capital into that business. Now for our large diameter tube, we will be deploying about Rs. 30 crore in terms of our CAPEX in this financial year.

Dilip Kumar Sahu: If you can just tell me the investment plan, budget for this year, I mean this year means basically next 18 odd months overall for the company as a whole?

Aditya Rao: So, I will get back to you on that next quarter. Hear me out the reason why I cannot give you that number right now is it's not been finalized. We are still debating the exact outflows we will have for our hydraulics business. We have also our BIW business where we have some visits from our partners, technology partners. So, it has not been frozen yet, so I cannot give you this, I know it is very late in the year, but we unfortunately have not been able to close our overall CAPEX outlay.

But I can tell you what has been decided, which is a pre-engineered building line that goes on and that is about Rs. 40 crore, and the tubing line which is about Rs. 30 crore that has been finalized. Ascent also has, we will be growing but most of the CAPEX has already been spent so there is only a couple of million left so that's about say about Rs. 15 crore to Rs. 16 crore left for Ascent. So, that's what's been done, done so far. I will not be able to comment on an overall number for the year right now.

Dilip Kumar Sahu: And in terms of the Railways business, for this Rs. 110 crore typically they have three to four months of cycle time right in execution. So, are you talking about Rs. 300 crore to Rs. 350 crore of Railways business this year?

Aditya Rao: So, the order book we have for Railways is longer term gestation, it can go into one year also, it's actually a longest gestation order book, everything else is a lot shorter. So, the revenue base we are expecting for Railways is not Rs. 300 crore but again we will not be able to give you an exact number for the year but it's not Rs. 300 crore it would be lesser than that.

Dilip Kumar Sahu: Because you reached a peak of Rs. 300 crore to Rs. 350 crore I think in 2017/2018 or something like that, that is a highly profitable business from what I understand.

Aditya Rao: It continues to be a good profit business, but we are not targeting Rs. 400 crore in that business. I think this pre-engineered building for us can be a multi-thousand crore business, hydraulics

can be a multi-thousand crore business, BIW can be a Rs. 10,000 crore business for us overtime, not right now. So, we are focusing on those. Railways will continue to be a good margin performer, we will scale it at a certain rate, but we are not looking at massive investments in that business, for the reasons I have mentioned on the previous question.

Moderator: Thank you. The next question is from the line of Chirag Shah from Nidara Capital. Please go ahead.

Chirag Shah: I had a couple of questions around the PEB business. Is there any seasonality that you see quarter-on-quarter in this business?

Aditya Rao: Usually there is, the Q2 tends to be the lowest, but in the current circumstances where our order books are extremely loaded and there is a lot of pressure on us to supply and also we have expanded capacity at our Hyderabad plant. Even before the larger plant capacity comes online, you will not see this traditional seasonality this year, you will see an increase in sales, in PEB.

Chirag Shah: One more question on our PEB, so is it possible for you to give the revenue Q1 FY'24 versus Q1 FY'23, the EBITDA margins and the order book comparison compared to last year. So, we get some idea on that --?

Shrikant Bhakkad: Yes segmentally we have given out this information in the Segment Reporting pattern, so if you see Custom Design Building Solutions and Auxiliaries, that's where the information is already included.

Chirag Shah: Compared to last year is there more positivity in the sector or, how do you see the growth spanning out for the next one year or two years?

Aditya Rao: Quite high as I said right now we, it's taking a push from us to convince our CEO in that business to expand order book, because he is full. But the moment our additional capacity and it's a very significant addition of capacity comes on then the larger order book. An order book is always pre-booked right so considering that the capacity increase is eminent I think I can project that this year compared to last year, our PEB growth sales, growth rate sales, net sales gross profitability will be quite high. And that trend should continue, both in India and in the U.S. both.

Chirag Shah: Specifically with respect to India, how do you see the margins improving with new capacity coming on and your order book fill up?

Aditya Rao: Our operating margins there are about 15% including freight cost of course. So, and the way to look at it is every additional dollar of revenue in the U.S., every additional rupee of revenue we add in India, we are adding at 15% here and in the U.S. it's even higher. So, we don't anticipate any margin issues. I think scale should give us the ability to expand margins in this. I think we had said 5% is our target, we will attempt to beat that.

Chirag Shah: At the PAT level?

Aditya Rao: Yes.

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

P Jha: I have two very specific questions, one is definitely you are not real-estate company, what is the value of surplus land that we have, which you are not going to be putting to use in your manufacturing activity or any business activity for that matter #1.

#2 I would be interested in knowing the list of customers in your Railway related businesses, the coach primarily or the Metro this thing, other than Bombardier and ICF and Titagarh and Texmaco if there are more, just the list of them. Because as some of the previous speaker said, we still believe that this is one business which is, it looks evergreen for the next decade with the three-lakh crore of investment every year, and which is happening. So, perhaps even scalability to the extent of Rs. 500 crore to Rs. 600 crore with decent margin is a great margin to look for in order to achieve your stated goal of 5% PBT.

And regarding the real-estate, I always believe that if you are a debt reduced company or that fund if you could utilize in your brand early, it would be everyone's interest, primarily in the company's interest and followed by shareholder's interest, that's my opinion. Thank you.

Aditya Rao: So, your first question as you said we are not a real-estate company. So, while the company holds on to substantial land assets, these either are land assets where there is an existing factory which is operating, or they are assets which we have acquired like Raebareli was acquired a few years ago with the intent of putting up a plant at that location. So, shall we say the liquid land that comes up, which can be sold which is not going to be used, typically tend to be those assets which are currently being operated or have just stopped being operated, because either the city has grown beyond that range or because of whatever reasons, we are not looking forward it's become more expensive to operate over there.

By that metric, I think two plants, two of our plants suffice, one is Patancheru and one is Isnapur. These are substantial land assets but as of right now we have not made a plan to liquidate them, we have liquidate some portion of our land about two years ago. I think we are looking to potentially once we have removed all of our manufacturing assets from these locations we will look to liquidate, but as of right now I don't have anything to share with you. We will be, there is a discussion of the Board on this issue, but we will look to liquidate.

On Railways business as you had said, we supply for coaches and wagons, we supply components and subcomponents. So, for coaches for example we make end wall, side walls, roof assemblies, trough floors, underframe components. For wagons, sorry we make wagon components which are integrated by the wagon manufacturers such as coaches at Titagarh, but ultimately our ultimate customer is always the Railway Board and I know that they are giving a

lot of orders and in fact for Train 18 what's called the Vande Bharat Express, in fact a lot of the product development was from a structural components point of view was ours.

As I had said it's a multi-hundred crore business it will continue to be a multi-hundred crore business and a good margin, but I think there are our primary customers for example coaches is ICF and MCF and I don't believe, it's my opinion what we have taken a call as a corporate, we don't believe that a multiyear sustainable revenue plan can be made based on our current profile, our current value preposition to Railways. If we do want something like that, we need far longer-term contracts, we need lock-ins in terms of what the capacity and outflow our customers want is the current environment where there is lot of announcements made, but has there actually been an increase in the number of rakes produce by ICF, my thinking is no.

So, we have decided as an organization that we will make railways grow at a certain rate, we will deploy capital, but since the Railway Board ultimately controls most of the, at least in their India specific business, ultimately whether its Western Railways, whether it's wagon manufacturers, whether it's coach manufacturer such as ICF, MCF, whether it's the Bombardiers, ultimately it all comes to the Railway Board and we don't like single customer businesses.

So, we have decided that we will scale it in a certain way, but the businesses which we have prep for hyper growth Railways doesn't figure in that. And there is nothing wrong with that per say in our view because just focusing on our hydraulics, BIW, our engineering services, our pre-engineered buildings business and focusing on India, the U.S. and Europe as geographies, is giving us revenue growth, is giving us margin growth, capital efficiency, I mean not very happy with where it is, but look forward to making it better and better. So, in my view I think we have a robust growth plan for revenue, we have a robust growth plan for profitability, that's fine, I think, we don't need to chase every opportunity that is possible for us, so Railways the answer is no, sir.

P Jha: No, fair point and in any case till such time it keeps happening why not run with it. And firstly it just reminds me of your, perhaps the conference call of first quarter of earlier year or whereabouts around that time, wherein you had specifically mentioned that the margins in the U.S. is as high as 20% or it is likely to be 20% you think that we have achieved or we are likely to achieve in a near future?

Aditya Rao: So, on the PP margins from an operating margin point of view we are well above 20% now, we are closer to 32%. From a net PBT or PBDT point of view we do believe that 10% to 15% is absolutely achievable. And we are trending above that as of right now we are trending at that level.

P Jha: And $45 million is the current order book, and likely to --

Aditya Rao: Order book but our projected revenue this year will be far ahead than that. It's a very short order book cycle.

P Jha: And it could be double of this?

Aditya Rao: It would be close to that, sir.

Moderator: Thank you. Ladies and gentlemen we will take that as a last question. I would now like to hand the conference over to Mr. Vikram Suryavanshi for closing comments. Over to you, sir.

Vikram Suryavanshi: We thank the management for giving us an opportunity to host the call and thank you all for being on the call. Sir any closing comment from your side?

Aditya Rao: No, thank you I am grateful for the question, I am grateful for the participation. And we look forward to executing on the plans that we have talked to you about. Thank you very much to all of you.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.