



**“Pennar Industries Limited Q1 FY25 Earnings
Conference Call”**

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

Moderator: Ladies and gentlemen, good day, and welcome to Pennar Industries Limited Q1 FY '25 Conference Call hosted by PhillipCapital (India) Private Limited.

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

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

We are happy to have the Management with us for question-and-answer session with the investment community. The Management is represented by Mr. Aditya Rao – Vice Chairman and Managing Director; Mr. Shrikant Bhakkad – Chief Financial Officer; Mr. Manoj – Vice President (Corporate Planning); and K. M. Sunil – Vice President (Investor and Media Relation).

Before we start with question-and-answer session, we will have “Opening Comments” from the Management.

Now I hand over call to Mr. Aditya for opening comments. Over to you, sir.

Aditya Rao: Thank you. On behalf of Pennar Industries, I would like to express my sincere gratitude to all of our Stakeholders who are participating in today's Investor Conference Call for Q1. Your engagement on this call is valued and we appreciate your time and support.

Our agenda today, as usual, begins with a review of our Performance for the quarter. We will cover key areas such as revenue, our profit before tax and our working capital utilization. We will also cover our strategic growth initiatives. After this, our Chief Financial Officer – Mr. Shrikant Bhakkad, will present an Analysis of our Financial Results. And post that, we will open the floor up to questions from the participants in the call.

As a summary of the 1st Quarter:

For the 1st Quarter, we reported a total income of 740.89 crores and a PBT of 35.43 crores. While revenue decreased by about 2.6% compared to the same quarter last year, our PBT increased by 20.31%. We generated a cash-PAT of 42.94 crores.

The decline in revenue is attributed to two primary factors:

1. Our strategic exit from lower margin revenue streams and slower than expected realization of new growth revenues.
2. Our order backlogs in PEB India and PEB US have reached the highest levels they have been at. The reason for the revenue, being where it is:
 - While we do plan for the exit out of the lower margin revenue streams, some of the PEB India and PEB US revenues that we're counting on to come in the last quarter underwent a little bit of delay, primarily execution delays, including the three-month postponement in the commissioning of our Raebareli plant, which impacted our ability to turn out revenue. And we do anticipate, however, that the plant will reach its peak capacity by September.
 - Also in the US, due to permitting delays and other operational issues, which we expect to resolve in this quarter, revenue came in lower than expected.

Since these challenges are internal and not market driven, we remain confident in our short and medium-term revenue growth prospects, specifically our order backlog for process equipment and hydraulics is also at peak levels and continues to grow.

And we have also expanded our engineering services, business development teams, and we have added 12 new customers in the US and in Europe. These factors collectively support our outlook for consistent revenue and profit growth.

Our peak growth drivers continue to be PEB US, PEB India, hydraulics, process equipment, and engineering services. So, even though the quarter came in lower, the combination of that was exit from older low margin revenue streams and newer revenue streams not growing in the timeline we had wanted to.

However, these are internal issues. Our order backlogs are, as I mentioned, at their highest-level levels, over 800 crores for PEB India and over \$52 million for PEB US. So, no concerns as far as our ability to scale revenue are concerned in the short term.

Our PBT margin for Q1 stood at 4.83%, and this is in line with our strategic shift towards higher margin businesses. As we had guided in the previous conference calls, we expect further improvements in margins in the upcoming quarters.

Working capital too, there has been a good improvement. As of June 30th, our working capital cycle stood at 74 days. We are actively working to further optimize our current assets, especially in business units that we are phasing out with the goal of reducing our working capital days to 72 over the next few quarters and longer term to get to 60 days.

Our growth vectors, as I mentioned, primary growth drivers will continue to be PEB India and US, hydraulics, process equipment, with PEB India order book exceeding 800 crores and PEB

US again at \$52 million and growing strong. We do expect that these businesses will generate a fair amount of growth in the next few quarters.

Hydraulics also our order books have increased to a record high, and our process equipment business is scaling well, and probably will double in size compared to last year in this year. Also, for hydraulics we should probably also double in size.

Engineering services continues to expand, as I mentioned, to our new customers, a growing delivery team in the U.S. and we have also improved our org structure to be tailored more towards both acquiring new customers and increasing per customer revenue share.

So, this concludes my Overview of our Financial Performance for the Quarter.

I now invite Shrikant Bhakkad to provide a more detailed “Financial Analysis.”

Shrikant Bhakkad:

Thanks, Aditya. Welcome to the shareholders and investors on the 1st Quarter FY '25 earnings call.

In terms of “Key Metrics”:

Revenue is 733.45 crores from 748.89 crores. Our gross margin, there is an improvement of 184 basis points from 37.95% to 39.79%. EBITDA has reached about 10% and it is at 10.77%, up from 9.84%. PBT has been increased from last quarter to this quarter.

Now the overall number is at 35.43 crores, which is up by 20.31%. And in terms of PBT percentage, that is 4.83%. So, then we are on our target to increase the PBT percentage.

In terms of revenue:

While Aditya explained in detail in terms of how on the revenue, we would tell you in terms of revenue with our continued focus to improve the margins and cutting down the sales with low margin businesses in terms of PV solar, water EPC, solar MMS, etc., you see the increase in the profitability of the business. Revenue has actually scaled up in terms of metric tons, but revenue has relatively not grown due to lower raw material prices in substrate and due to the reduced off-take for the PEB business.

The diversified engineering revenue for Q1 FY '25 is at 423.12 crores compared to 380.52 crores, which is up by 11.2%. The custom design building solutions, which is our PEB business, the revenue has been flatter, but good part is there is an increase in order book at India 800 crores plus and PEB US at 52 million. And we are confident that the revenue will go up as the year progresses.

In terms of other P&L Items:

The other income consists of deposit income, income from mutual fund incentives, exchange fluctuations and collection of old receivables. Salaries decreased due to the one-time bonus which we had in the last quarter in one of our subsidiaries from 80.05 crore to 76 crore.

Standalone:

There was an increase by 1.45 crores, 41.32 crores from 39.87 crores. If you see the quarterly numbers that have been increased, this is due to mainly increase of our new plant which is coming at Raebareli, sales resources that we have hired for our US, ads for PV Engineering, Tech Pennar, the Engineering Services business, and the hydraulic businesses.

In terms of Finance Cost:

Consolidated Q1 FY '25, it is 27.04 compared to 27.85. This is slightly due to the reduction in interest rate while we are able to close down some of the higher interest rates loan and then take the lower interest rates and also due to a reduction in sales.

What we would guide us to is in terms of interest to net sales as a percentage. Presently it is at 3.69%, Q1 FY '25 and Q1 FY '24, it was at 3.72%. There is a reduction with 3 basis points. We expect that this has to be in the range of 3.75 by December and our target is by March it should reduce to 3.6 to 3.65.

Depreciation:

In terms of overall numbers, it has increased from 16.42 to 16.54 crores. Subsidiaries, there is an increase on account of the new capitalization that we are doing that by 22 lakhs. In terms of standalone, there is a decrease of 10 lakhs. Standalone, even with the additions, the depreciation, there is a decrease. As some of the businesses that we have exited, we are able to include those assets and realize those values based on which overall there is a slight decrease in terms of depreciation.

Tax is reduced from 25.94% to 25.49% predominantly due to change in our sales at our U.S. subsidiary asset. And while we guide you to note that the certain tax is 21% and depending upon the state taxes and the place where we supply, the state taxes fluctuate. So, with this number, you would see a difference in terms of the overall tax rate.

In terms of overall analysis, revenue has been flattish. We expect the revenue to improve in our PEB and engineering services of businesses. The profitability during the year has gone up due to better margins and the changing revenue mix in standalone entities. The businesses we have exited would have added our profit and revenue higher, but this is where we are.

In terms of the last point on terms of Order Book:

The PEB has increased and now it is at 800 crores. Railway is 100 crores and Ascent is at 52 million.

So, with this, I hand it over to the moderator for taking us through the question-answer session of the investor community.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Naman from Chandak Investments. Please go ahead.

Naman: So, I just wanted to know that the PEB order which we have, 800 crores plus in India, in how many months we can execute that?

Aditya Rao: Typically, our order books go out for about 6 months because right now the challenge is not our order backlog. It's capacity coming online. I think this probably is closer to about 8 months.

Naman: And what are the blended margins for the PEB division?

Aditya Rao: Could you repeat that? What margins? Sorry.

Naman: For PEB division, the margins.

Aditya Rao: What margins? Net margin, is that what you are saying?

Naman: Yes, net margins for PEB division.

Aditya Rao: I am not sure we give BU-wise breakup of margins. So, we will be unable to provide, but it is higher than the average margin for the company, I can guide you to that.

Moderator: Thank you. Our next question is from the line of Ashish Soni from Family Office. Please go ahead.

Ashish Soni: Sir, this lower margin business, when do we think we can completely exit that?

Aditya Rao: So, currently about 35% of the company is still in the lower margin businesses. So, we are being methodical about slowly exiting those businesses while our revenue keeps up. And what we would like to see ideally is sustained revenue growth overall and a sustained exit from these businesses. So, over the next few quarters, two years, you would see a complete exit, but for the near term, there will be a blend of new versus old.

Ashish Soni: And this Raebareli plant, you, I think, in your opening remarks, you mentioned it will reach full utilization. So, are you getting orders in hand already, or what's the situation there?

Aditya Rao: Both, all of our PEB plants, both in India and in the US and especially in Raebareli as well have order backlogs which are completely in place. We have commissioned a plant. I think trial

production also is underway. I think in September we will have much higher capacity utilization levels. I wouldn't go so far as to say 100%.

Ashish Soni: And PBT margins moving up to 7%, when do you think it can achieve? Because earlier you guided, I think, 4 to 6 quarters, I think 2 quarters back. So, where do we stand there on PBT margins of 7% for the overall company?

Aditya Rao: So, we will not be exactly able to provide you a precise timeline for us to reach 7%. What I can tell you is that our goals are to reach and exceed that number. We are currently at around 5%. Over the next few quarters, over the next few years, we intend to gradually scale up our margins.

Ashish Soni: And last question, this U.S. election perspective, do you see any order book challenges in the next 1 or 2 quarters in PEB especially?

Aditya Rao: So, typically, we don't, because our market share in the U.S. is so small, micro economic factors shouldn't impact us, because we have sub 2% market share in the U.S. in the metal building and PEB space. However, that being said, yes, the U.S. election, there is always a little bit of a slowdown.

We are not too worried about, in at least medium term we are not worried at all, but it's only a few months away and even now I think quarter-on-quarter there is improvement. So, I wouldn't factor in too much impact from the U.S. election. But yes, usually when there is a little bit of uncertainty, non-residential construction activity does tend to slow down in the U.S. a little bit.

But our order backlog is, as I mentioned on my initial note, higher than it's ever been. It's growing quickly. We are expanding our addressable markets as well. Margins are stable, operating margins are stable. So, no concerns really from a macro point of view for our U.S. business.

Ashish Soni: I think in one of the other conference call, you alluded that you could increase your U.S. market share. So, any ambition we have? Because I think three, four quarters back, I think you mentioned that you can increase it substantially. So, I know you have been hiring a lot of sales persons, if I recollect from other conferences. So, any update on that you want to give?

Aditya Rao: Yes, we are expanding capacity. We have substantial treasury operations in the U.S. as well. So, all of our CAPEX growth plans are well funded, and we are quite confident of being able to scale our U.S. business. That will take our market share up over the next few quarters and over the next few years. But we don't have an aspiration to reach 10% market share. But I think we will need to cross 5%. That by itself also means that we dramatically expand our current revenue base in the U.S. So, that is the current Phase 1 plan right now. Once we reach the higher market, let us say capacity utilization and let us say the higher market share numbers, we will then look at the longer term. But as of right now, yes, our market share in the U.S. is increasing.

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

Nilesh Shah: If you can just give some color on the projected guideline in terms of our top line and bottom line for the year, given that we are exiting out of these non-core businesses which are low value added? And in terms of the Raebareli plant going live, if you can give us some color on the top line and the bottom line projected for the year?

Aditya Rao: Currently, the growth drivers in the business as I mentioned are PEB India and US. While we had some teething issues in the last couple of months, these are internal capacity commissioning issues, some labor issues in terms of availability. All of those are short term, very, very short term, I would say. So, overall, we are quite confident that revenue grows in spite of the exit of low margin businesses. So, overall, for this year, I can definitely guide you to our revenue being higher than it has been last year, which would mean we will have our highest ever revenue and our highest ever profits this financial year. That we can definitely guide you.

Nilesh Shah: So, I am just looking at a repeat from '23 to '24 in terms of our growth. So, just to get an idea in terms of 10%, 15%, 20% kind of growth lines in terms of numbers if you can put in some perspective on that.

Aditya Rao: Guidance would be difficult, but I think we are looking at definitely a double-digit growth in our profitability, yes.

Nilesh Shah: And my second question is on the land bank that we already have. I mean, we have our factories and projects over there, but given the kind of appreciation on the 500 acre plus, I think, if I am not mistaken, you can correct me, on the land bank, is there any plans of monetizing any of our land that we already own and which are not being used?

Aditya Rao: There are several issues we are discussing at the board and once we have something concrete, we will share with you, but as I mentioned the last time, there is a substantial land bank within the company, and it is a source of some strength from a balance sheet point of view because it is right now not at all appearing on our balance sheet from our asset acquisition value. So, it is obviously a very, very low number, but we will make any plans for this and when we have something to share, we will share it with you. As of right now, nothing to share on these issues.

Nilesh Shah: Are we going to look at revaluing the assets and adding it up in our balance sheet to strengthen it up?

Aditya Rao: No, sir. When we sell, then we will record it. That's what we did with the last sale of land asset we had when we sold. But we will not be, basically you are saying revalue the land assets and then bring that into the balance sheet, no, I don't think we won't.

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

Chirag Jain: Sir, first question is on the US PEB business. So, what's the contribution of U.S. business in the overall revenue?

- Aditya Rao:** From a revenue standpoint, about 25% is our U.S. business, which we call PGI, Pennar Global.
- Chirag Jain:** Sir, second question is on the, we are talking about increasing the US PEB business. So, what's the strategy for increasing our business? Would it be grabbing existing player's market share or gaining the exponential market growth over there?
- Aditya Rao:** Are you talking about engineering services?
- Chirag Jain:** Yes.
- Aditya Rao:** So, engineering services typically for us is structural engineering, building information, modeling, component design and product development. All things we do in-house but provided to our competitors and other players in the field as well. So, growing well, high margin business, and the addition of our new BD team and the structuring that we have put in place, both in the U.S. and in Europe, we are seeing revenue come in and we are planning for a substantial increase in our revenue in this field. And it will continue to be high margin.
- Chirag Jain:** Sir, previously in Q4 FY '24, you mentioned about mentioning that you would be doing some CAPEX for FY '5. It will be provided in Q1. So, any update on that?
- Aditya Rao:** Our CAPEX plans right now are fluid in the sense that we are looking at it in terms of a BU level and our BU plans for the next five years are being finalized as we speak. So, I will request some more time from you to explicitly share what our plan for FY '25 is, but we do expect to grow our hydraulics business, and we do expect that there will be CAPEX for the tube business as well. Those are the two sectors which we will be investing into in this financial year. PEB is already done. PEB US already done for the most part and not substantial CAPEX there, but these two business units are what will effectively what our CAPEX will be going to.
- Chirag Jain:** So, do we have any ballpark number in mind currently?
- Aditya Rao:** I will get back to you on that.
- Moderator:** Thank you. Our next question is from the line of Deepak from Sapphire Capital. Please go ahead.
- Deepak:** Sir, just one thing I wanted to check. I mean, in terms of this 35% of your revenue is in low margin business. So, can you just give some details on the differential between your low margin business and high margin business? So, what sort of margin we have on this 65% pie in terms of EBITDA or PBT margin? And what sort of margin we have on this 35% pie?
- Aditya Rao:** I think you give a broad level of guidance on that. So, the lower margin businesses effectively, and let me speak from a PBT perspective, typically end up at around 2-3% from a PBT perspective. The higher margin businesses are, the operating margins are all high. They are above 15%, above 20%, even above 30% in some cases. As these other businesses grow, they will contribute higher and higher.

So, from a peak PBT percentage perspective, it can be as high as 10% or above 10% as well as a blended margin. But as of right now, they are at about 6%-6.5%. So, the blend when you take it is coming to about 5% right now. But we expect as the high margin increases, then the overall blended margin will keep increasing. At the peak level, it will be substantially higher than what it is today, which is at about 5%.

Deepak: And in how many quarters we are looking to completely exit the 35% pie.

Aditya Rao: That also is something I want to get back to you. It will go step by step. One of the things you want to ensure is that there is no lack of growth from a revenue and profit perspective. So, that in a sense controls it.

There are other concerns such as while we are exiting these businesses, it's important for us to do that well enough so that our customers are well taken care of, that we don't rush through projects which take a little bit longer time, which have a longer lead time. So, it may take some time, but the way we are planning this out and mapping this out is consistent revenue increase, profit increase and margin increase, and over the next few years, getting to the number that we have indicated are our goals.

So, I would guide to that being the metric, I think a hard closure date we don't currently have for completely exiting all of these businesses. That may take a little longer, but there will not be a lot of capital or any capital growth going into these businesses. So, they will continue to represent a smaller and smaller portion and over time that number will drop to zero.

Deepak: Zero. So, maybe what, one, two years would be a rough range? I mean, I just wanted to understand.

Aditya Rao: I think that's the range that you can take. Yes, that's fine.

Deepak: One to two years. So, when we completely exit, then automatically our PBT margin, I mean, as per current level, would come to around 6%, 6.5% rate, and there might be some improvement in that new business also. New business, I mean, high margin business for the margin improvement scope that you mentioned about.

Aditya Rao: We would aim for a number. If it's a blended margin, even in the short term, next 2-3 years, we are aiming at a number higher than 6%-7%. 6-7 isn't very, very far away. I mean, I think, when you have hydraulics at an operating margin of 20%, engineering services at an operating margin of about 30%-35%, we don't, there is no cap. I mean, 6%-7% is something you would still consider to be low from a PBT perspective.

Moderator: Thank you. Our next question is from the line of Ashish from GrowthSphere Ventures LLP. Please go ahead.

Ashish:

Sir, in last con call, you had basically given aspirations to become \$1 billion company. So, my first question is, where are we on that? And second question was, with respect to CAPEX, my earlier participant had asked the question, we wanted to confirm what is the peak revenue expected through the CAPEX which takes place in next two to three years? If you could throw some light on that, it would be really great. And congratulations for a very good set of numbers.

Aditya Rao:

Thank you for your message. So, let me do my best to answer those questions. Both can be considered to be guidance related. So, I think, how I would like to answer your question is your first question on a plan to be \$1 billion. We have growth aspirations. Our addressable markets for the five major road drivers for the company are all quite high. All of them have multiple thousands of crores in terms of revenue potential.

So, focusing on acquiring market share in these segments will make sure that we grow and grow well beyond a billion or more than that. And that's the plan that we have in the company, and we will continue to try to execute that over the next few years to get to a larger number.

Right now, from a gross sales point of view, which is a metric we use, we are closer to about 4,000 crores and we expect that to grow and scale. We will not be curtailed from growing by the market. We will have to execute well internally, and that is what we intend to put in place. So, that's from an overall growth point of view. We are not capped by a billion or even more than that from a revenue potential point of view.

The second question you had was about peak revenue if I understand it. So, there is no such thing as a constant peak revenue. I think you will see revenue growth this year, you will see profit growth this year. I guided on a previous call to at least double-digit growth in profitability. I think that definitely is something we can come into, and we will achieve. Most importantly, our margin outlook and our capital efficiency outlook is important to see. We are not really fully chasing revenue. Revenue growth is important. It's critical.

The number one priority for us is capital efficiency and margin improvement. So, our ROCE as you would see has gone from 10%, 15%, 21% and the annualized ROCE of the last quarter was 21.7%. So, our goal is to bring that up. The businesses we are investing in have a ROCE of about 30%.

So, getting a return on capital employed, about 30% consistent margin improvements is what we have demonstrated over the last four years, and we will continue to do that. And that would be what I would guide you to. There is no such thing as peak revenue. As we keep doing this, the revenue will increase.

Moderator:

Thank you. Our next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: Sir, I wanted to ask, in the last con call, we said there would be a Q-o-Q growth in PBT, which unfortunately is not happened this quarter. Would you call that due to labor issues and capacity commissioning or how should we look at that?

Aditya Rao: I think the revenue base last quarter was about 800 crores. This was about 740. We do expect consistent quarter-on-quarter and previous quarter last year, this year that we are certain of committing. From a Q4 to Q1, typically Q4 tends to be our best quarter.

So, you are right. I think our expectation internally was that we would be higher than that. And because of these execution issues, we lost a fair amount of revenue and a fair amount of profitability. It's not very far off from our peak last year from Q4, but we have done the repair work internally and while we have grown profitability well in this quarter, our internal targets are far more stringent.

And I think you are right. In Q2, Q3, Q4, you can look forward to profit increases. And certainly in Q4, we will be at a substantially better picture than Q4 last year. I guess that follows from a quarter-on-quarter growth. But yes, you are right. We are not happy with our performance in this quarter.

Ankur Kumar: And sir, in this WIP, when will that going to commission and when will the benefits start accruing to us?

Aditya Rao: Could you say that again, sir?

Ankur Kumar: The work in progress, capital work in progress, how that capacity will be going to come for us?

Aditya Rao: It will come online this year. In the next quarter, you will see those numbers get, the plans get commissioned and get built up all the way to full capacity.

Ankur Kumar: So, we can expect benefit in the second half?

Aditya Rao: Yes, sir.

Moderator: Thank you. Our next question is from the line of Venkatesh from Organic Capital. Please go ahead.

Venkatesh: Compliments for excellent execution on spoken part. I have couple of questions. One, on the U.S. subsidiary, what have been our broad learnings? Because it's after all a new territory. We have been there about 18 to 24 months. While we have grown, we would have probably had a lot of challenges. How are we kind of equipping ourselves to address a large market there?

Aditya Rao: I think the U.S., as you mentioned, the markets representing are all massive. The PEB metal buildings market in the U.S. is in excess of \$8 billion. So, even a moderate market share gets us

to a revenue potential which is larger than the current size of the entire company. So, that's a good thing we like to see from market perspective.

However, large addressable markets doesn't automatically become high revenue or large revenue and to do that, I think our learnings over the last few years has been the U.S. is a very relationship dependent market, much more so than in India. It is less cost conscious. It is far more reliability, dependability, and execution oriented.

So, we have expanded our business development base, our engineering base. We are treated not as a subsidiary of ourselves, but as a discrete business by itself and ensure that our market share gains there come not just from an order book increase, but from a very good execution outflow. And quality is extremely important. The same product we make here was what we make there. In the U.S., it's much higher quality.

I struggle sometimes to explain internally why that is also but whatever it is, the work ethic there is much higher. It's important for us to take into account that quality has to be top-notch, delivery has to be top-notch, what we say we have to do. So, imbibing these qualities has been the biggest learnings for us. Not that we didn't have them before that, but it's important for us to prioritize those in our growth journey.

And it's not just a question of getting larger and larger out of backlogs, which we are doing anyway. We also need to execute well, and which means good operating teams, good ops structure, and we are focusing hard on building a proper team there. We now have over 220 employees in the U.S., and I know that we will continue to grow from strength to strength in their geography.

Venkatesh: On Body-in-White, we haven't heard you mention this in the last one or two calls. How are we positioned there? What is our focus on that?

Aditya Rao: So, Body-in-White, while we have had a good amount of growth and we have stabilized it and Stellantis continues to be a customer, we have added a few new customers in the past. We have received Tivolt. We are working with; we are trying to get Kia and Hyundai as customers as well and there will be RFQs going out. So, we will add more customers and already there have been more customers that have been added. Product development is taking place over the next year or so.

This is a slow growth business I think, but it's also in a sense, good in the sense that revenues don't suddenly drop in that business because there is protections in place for that. So, it will be a slow growth journey, but a growth journey all the same, but that's where we are at right now. So, in BIW this year, we will see substantial growth compared to last year as well.

Venkatesh: At a broader level, Aditya, we are at something like about what, 130, 140 odd crores of cash flow? You would probably aim to maybe about triple that in about four, five years' time. That

would still amount to the same numbers that you are kind of predicting, which is about 5%, 6% PAT kind of margin and just about \$1 billion kind of company. So, is that a broad expectation?

Aditya Rao: I can speak to you rather than give that as a guidance, what I can tell you is what we are looking at and what is possible. Maybe that's a better way to answer the question. So, if we look at a company in the field that we are in with a similar positioning as us, if they are looking to grow in these business units and each of these business units have addressable markets, which are that size, so, you do have the expectation of your revenue more than doubling in the time frame that you mentioned, in the three to four-to-five-year time period.

And if your operating margins move up in the level that they should, considering market margins in that, it is very possible for us to imagine a company which is substantially larger than Pennar's size, more than twice our size and the impact on our cash generation when you have net margins moving from 5 to, let's say, closer to 10 would be not a doubling of cash, but the doubling of revenue and doubling of that would mean at least a 4xforex on a cash point of view.

So, that is what is the possibility. We have to execute well. By no means am I saying that's our guidance. What I am saying is that's the possibility on the table right now in three to four years.

Moderator: Thank you. Our next question is from the line of Vikas Puri, an individual investor. Please go ahead.

Vikas Puri: Sir, our company lot of depends on the USA and we are observing that they are installing anti-tariff policies. How did that impact our sales growth or revenue growth there, sir? Or is it doesn't impact at all?

Aditya Rao: You said what policies, sir? Sorry. Anti?

Vikas Puri: US are installing anti-tariff policies. Like we have Make in India, they are now doing Make in America, like those things. How did that policy affect our sales there sir?

Aditya Rao: I was not able to make out exactly what you are saying. But let's try again. Could you say? You said in the U.S. anti, what policy, sir?

Vikas Puri: Sir, I am saying that the USA is installing anti-tariff policies. They are putting more and more tariffs whenever there is import there. So, how does that impact on our company because we have lot of dependency on USA in sales and in profit, high margin business? Or is it does not affect us all?

Aditya Rao: Sir, I understand. Let me answer that. So, our U.S. business so to speak is majority dominated by, I mean, well above 80%, we manufacture in the U.S., and we stamp drawing engineering work in the U.S., though the detailing work may happen in India, PEs are present in the U.S. So, it is considered U.S. work. So, tariffs and duties do not apply at all. There are some verticals

such as a hydraulics business where we do centralized production in India, and we don't intend to change that.

We are also an importer of record in the U.S. So, we have mapped out the tariff businesses and any business where there can be a high tariff impact, we have exited those businesses already. So, tariffs is not something that will apply to us at all. Because we manufacture locally, we design locally, we supply locally and the products we tend to ship there which are higher value added, for example, hydraulics, there are no tariffs, or very, very low levels of tariffs and it would not be practical for, so tariffs over the U.S. are typically on commodities, on less margin, value-added margin products. So, we do not have, because of this and us being an importer of record also in the U.S., IOR certified, we don't anticipate an issue because of this.

Vikas Puri: Another question is that you are aspiring to be a \$1 billion company and by 2030 I think you are guiding, is it right, sir?

Aditya Rao: So, as I said sir, we will not be giving guidance in that sense, but what I can tell you is addressable market times your market share is our revenue. So, our goal is our addressable markets are all massive. Our markets don't need to grow for us to be able to grow. Our market share is low. As we create more good quality assets, as we improve our operating efficiencies, we are also completely revamping our entire business process mapping here. We are working with a good team in order to make sure that we optimize what we are already doing.

The combination of all of this means that our market share will grow. I have a high degree of confidence on that. So, we are not curtailed by anything in the market. There is no top limit to what we can achieve. So, yes, I am confident of continued sustainable growth at Pennar is something we are very, very confident of.

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

Dilip Kumar: Aditya, the question is more on qualitative side of the business. You talked about operational issues; execution issues and internal issues and it looks like you are not very happy with the current quarter number. But as an outsider, the number looks quite reasonable to me. So, I just want to understand what exactly you are seeing, which is something I am not able to see. Can you elaborate on these issues that you are facing in terms of execution?

Aditya Rao: Let me broadly give an idea of why. I mean, yes, the numbers obviously are good, and I am not denying that. But what I wanted to submit is that internally since the quarter has already gone, we can talk about it with a lot more clarity. And we expected much better numbers and much, much better numbers if possible.

See, there are external factors and internal factors. We should never allow internal factors to not allow us to grow and scale in my view. So, even though with a large order book, for example,

we had the potential to do a lot better. So, we understood that what needs to happen for us to improve, to create the foundation for future growth as well, we need to have more robustness in our systems.

So, let me give you examples of what we will work on to address this. So, we will be completely revamping our business processes to get towards revenue, profit, and capital efficiency growth. We have good systems already in place, SAP, but I think they are going to be over the next couple of quarters changing that completely. So, business processes get realigned and internal automation gets brought in a lot of areas where things get jammed up. I think that by itself can add a lot of value to us.

Other issues such as proper procurement, proper execution, labor supply being allocated properly, all of these are issues which we as a company at our level of maturity should not face. So, that is, it was more on that issue where we are internally not happy with what we have delivered in the quarter. The numbers may look good or may look all right, but our job is not all right, our job is to make sure that we perform up to industry market standards and I think that is what we are going to achieve in Q2, Q3, Q4 for the rest of the year.

We are confident of delivering growth on revenue and profit and we have no issues from an order backlog, customer point of view, it is not market forces that are preventing us from growing. So, we will make sure we get growth in quickly. It is more from that perspective, not that there is anything.

Dilip Kumar:

The second question is a little bit of confusion on this so-called low margin business. I thought that we had around 14%-15% of low margin business and to start with, now you are saying that 35% at the current level is around 1,100 crores of the consolidated number. Obviously, it lies in India, which means half of our India business of 2,200-2,400 crores is a business you don't want anymore. So, where does this 1,100 crores business lie? And even if you watered down by 300-250 crores, it is like three years for us to water down this business to zero. So, can you just give me some elaboration on what exactly is low margin business and where it is lying?

Aditya Rao:

So, typically a low margin business are businesses where there are two things. Let me call them low margin and lack of scalability, right? So, these are businesses that Pennar has been presented from a legacy standpoint, which we really, we don't see a growth path to high levels of growth and high levels of PBT.

So, let me give an example, for example, of our CR business. We are a cold rolling business as well, special grade. Obviously, not commodity cold roll, but special grade. These are Manganese-Chromium alloys, 16MnCr5, Vanadium-Chromium alloys. So, while the product is good, the problem here is in order to hit the higher margins, the 5%, 6%, 7%, 10% PBT margins, you need to have scale. And you have JSW and Tatas and ArcelorMittals, all with 20 million tons per annum, 30 million tons per annum. So, we will be unable to scale that business.

So, we would want to gradually reduce dependence. So, the percentage basis, the revenue attribution wise, as the company growth comes down, but also just gradually exit those verticals. Because going into them and scaling those verticals means that they become a commodity player and that is not what we want to do.

Similarly for railways itself, we fabricated components unique for them and outside walls, roof assemblies. Now that is a business that has become very competitive. At one point of time, it was okay, not that competitive, but the problem is that there is no product development in there that's owned by ICF, MCF. So, any business which doesn't have this engineering and product development angle or a continuous margin and revenue scaling potential, our businesses we want exit. We call these low margin businesses, but you can accurately call them low-margin low-scale businesses.

So, yes, that as you said, as you notice 35% of the business of the company's business being in those lines does mean that another on about 300, 350 crores, more than about 400, 500 crores is that business, but I am quite confident that it won't take three years for us to liquidate that fully. I think closer to about a 2-year timeframe. Either we will liquidate them, or we will absorb them into the other BUs and make sure that some of them can generate some scale. But the revenue drop from those businesses preventing us from seeing higher levels of revenue growth overall, that problem goes away. That's what I would like to say.

Dilip Kumar: When you meant 35%, you meant 35% of the domestic business.

Aditya Rao: Could you say that again please?

Dilip Kumar: I am just asking for clarification. I can come in the queue otherwise.

Aditya Rao: I think this is an important question. So, if the moderator if it's okay, can we just take this question because...

Moderator: Okay.

Dilip Kumar: Yes, my point is, yes, I wanted. So, when you said 35%, you are essentially meaning 35% of domestic business, which is 2,400, 2,300 crores. Is that correct?

Aditya Rao: No, that's not correct. It's 35% of our overall revenue base. So, the math you did which says that on a domestic basis it will be higher than 35% is accurate. It's correct. But it won't take us three years, sir. Every quarter there is an improvement. Every quarter there is...

Dilip Kumar: Just to get the size and the reason I am a bit concerned is this. See, five years back we thought a large steel tube is the business to be in. We invested a lot, I think 50, 60 crores in setting up capacity. And after five years if you are saying that it's not a business we desire, it's a little bit of concern as an investor. How do we know that today what we think is good business will become after four years bad business? That's my only concern, Aditya.

- Aditya Rao:** Just to correct you sir, tubes is a growth vertical for us. Tubes isn't considered a low margin or a low scale business. Primarily CDW, DOM is our product there and the operating margins they are above. And we are actually investing capital as I mentioned to a previous question. We are investing capital into our large diameter tube business as I had mentioned that CAPEX will primarily this year go into hydraulics and our tubing business. So, no, there is not, I would agree, that would be a viable concern, but that's not what's happening. We are growing our tubes business.
- Moderator:** Thank you. Our next question is from the line of Saiganesh from Square 64 Capital Advisors. Please go ahead.
- Saiganesh:** I just want to get the idea about what is the contribution of total percentage of sales from the low margin business of FY '23 and FY '24?
- Aditya Rao:** Could you say that again please?
- Saiganesh:** Contribution of low margin business for the year of FY '24 and FY '23.
- Aditya Rao:** So, FY '24, which is March 2024, what we are now designating a low margin low scale business was about 45%, but allow me to get back to you with more accurate number on that. That number is now lower.
- Moderator:** Thank you. Our next question is from the line of Ashish Soni from Family Office. Please go ahead.
- Ashish Soni:** Sir, what is happening on auto and air space business in France? Sir, France auto and air space business, what is happening on that? We didn't hear from you for last one year almost.
- Aditya Rao:** So, as a caller in the previous question that he asked, our Body-in-White business is doing well. It's growing, but I do want to differentiate this is not one of the core growth businesses. It takes a long time for us to acquire businesses. So, it's doing well, and we continue to acquire businesses, and I am sorry, our customers and grow there. And we are working to add three more blue chip automotive component manufacturers.
- Aerospace is also the same story. I think we are working with Airbus right now and that also is growing well. But these are small businesses there. I mean, BIW in the entirety was about 100 crores last year and this year it may touch about 200 crores, but it takes a long time for these businesses to scale. So, they are doing well, and they will continue to do well.
- Ashish Soni:** And you mentioned the CAPEX this year will be in the hydraulics and tubes. So, is it India only or U.S. also you are planning to do CAPEX?
- Aditya Rao:** Most of our revenue in hydraulics is out of India, is export oriented.

- Ashish Soni:** And tubes?
- Aditya Rao:** Tubing is domestic and export.
- Ashish Soni:** So, you will do CAPEX for tubes in U.S. also or how is it?
- Aditya Rao:** Currently no plans, but it is interesting if you say that, but currently no plans, but specifically in the large diameter segment, there is a good potential market in the U.S. for, and the cost economics work out, but right now we don't have plans.
- Ashish Soni:** And last question. This water treatment chemical solution, there is a lot of focus by a Government of India on this. So, do you think this business can scale up? What the thought process there?
- Aditya Rao:** Which business, sir?
- Shrikant Bhakkad:** Water treatment.
- Aditya Rao:** No, that's one of the what we call our legacy business. So, in fact, water if you see, we have completely exited. We are not taking any orders. We have stopped taking orders on that also because the same reason, margin and scale and no real entry barriers. So, we could not. We have decided to. And there are companies doing very well in that business, but we are not going to be going after that addressable market. Our current addressable markets are enough. So, we will focus on fewer markets and try to be larger scale in them rather than having several sub scale businesses.
- Moderator:** Thank you. Our next question is from the line of Hari Kumar, an individual investor. Please go ahead.
- Hari Kumar:** My only question is regarding this heating process equipment division, like sector has now turned positive like the power generation. What are the potential for that business, sir? And are you investing in that furthermore?
- Aditya Rao:** Yes, our process equipment, as I mentioned, is a growth vertical, doing well, record order books. You are right. I was in Tiruchi recently and an order book from the power sector has grown. We are not looking at that as the major driver of our markets in our process equipment business, sir. I think we are looking at the sector we typically target. So, cement, sugar, steel, these are where most of our products in the process equipment business are going to and we want to increase that. Power is doing well right now, but as you yourself mentioned and an order book in that is up, but the majority of our order book is non-power.
- Hari Kumar:** Can we enter into the green hydrogen business, sir?
- Aditya Rao:** We have no plans to enter the green hydrogen business.

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

Dilip Kumar: I just wanted to know the startup cost that we have factored in last quarter in the Raebareli plant?

Aditya Rao: In what plant, sir? Sorry.

Shrikant Bhakkad: Raebareli.

Aditya Rao: Raebareli plant. You said startup cause in the CAPEX, sir?

Dilip Kumar: Yes, the pre-opening cost. I think Shrikant talked about one-time cost. One is, of course, the salary has come down because of the bonus suffered as any business dies and there has been an other income gone up because of the start-up cost in Raebareli plant. That's the premium start cost. I will ask Shrikant to answer the question.

Shrikant Bhakkad: There are two clarifications that I would like to clarify, one in terms of salary cost and one in terms of other income cost. In terms of other income cost, we predominantly include the deposits from mutual fund, interest income and the collection of old receivables there.

In terms of salary cost, predominantly, there are two components to it. One is India salary cost, and one is the U.S. salary cost. In terms of India salary cost, there has been increase because of the new people we have deployed at our Raebareli plant, the sales engineering that we have hired for engineering services and hydraulics.

So, that's the reason there is an increase in the India salary cost, but in terms of the consolidated salary cost, there is a decrease because there was a one-time bonus which was there last year, previous quarter, which is not there in the current year.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for the day. I now hand the conference over to the Management for closing comments.

Aditya Rao: Thank you to all of you for your presence and your time and attention in the call today. We will continue to execute our plan for the rest of this financial year, and I am grateful to all of you for your continued support. Thank you so much.

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