"Pennar Industries Limited Q2 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 Q2 FY'24 Results Conference Call hosted by PhillipCapital (India) Private Limited.

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As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that the conference is being recorded.

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

Vikram Suryavanshi: Thank you, Akshay. Good morning and very warm welcome to everyone and wishing you all very Happy Diwali. Thank you all for being on the call of Pennar Industries Limited.

We are happy to have with us the Management of Pennar Industries here today for 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 – Vice President (Corporate Affair); and Mr. K. M. Sunil – Vice President (Investor and Media Relations).

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

Aditya Rao: Thank you so much. My thanks to the moderators and to our stakeholders, and I thank all of you for taking the time to participate in the Investor Conference Call for Q2 FY2024 for Pennar Industries. Also wish all of you and your families a Happy Diwali.

As per new now standard agenda, we will begin with a breakdown of our quarter performance covering our profitability, our liquidity, and our growth plans. After that, our CFO Mr. Shrikant Bhakkad will give us his analysis of our financial performance, and after his presentation, we will open up the line for questions from our stakeholders.

For the summary, the 2nd Quarter of FY2024 saw, achieved net sales amounting to 814.13 crores and the PBT was 29.73 crores. This represents a percentage increase of 38.1%. Now our cash profit for the quarter was INR 38.92 crores, and this reflects a growth of about 22%. This is as per our forecast, and we are confident of further profit growth in the remainder of the year.

And one point to note is that the revenue was flat or perhaps fractionally lower than the corresponding quarter last year. Now this is as per our stated intent to replace our low margin revenue with higher margin products and services. We had guided to this in the previous few quarters. Specifically, our water EPC, our solar EPC, our retail revenue, and this is well over 100 crores for the previous quarter in the previous financial year has been replaced with higher margin and sustainable revenue from our pre-engineered buildings division, tubes division, and our process industry equipment business, and also body in white.

So, for the financial year in question, we do project revenue growth. So, while this year will be our highest ever revenue, do bear in mind it's a combination of an increase in higher margin revenue streams and an exit from revenue streams that will not be growing. This, of course, doesn't apply for next year.

On the profitability metrics, or quarter 2 PBT of 29.73 crores was at a margin of 3.65%. As we both replace lower margin revenue and also scale our PEB, hydraulics, engineering services, and PGI businesses, we will continue to see margin improvements. Our cash PAT was 38.9% and the margin for that cash PAT was about 4.78%.

Move on to working capital. September 30th working capital days stood at 76 days. The annualized ROCE was at 21%, and our target ROCE for the year is 24%. On previous calls, we had a comment on the calculation of the ROCE, and we have gone back and reviewed it, and we believe our calculations to be accurate. We effectively take our EBIT and divide that by the capital employed to arrive at our ROCE.

Our target working capital days is 72 days, and by the end of this year, we are confident we will achieve this target. However, working capital days in September at 76 days is a little bit higher than what we would have ideally liked to have been at. This is because of delays and liquidating some of our current assets in the revenue streams that we are closing. We consider this to be a short-term issue, and we will fully liquidate our current assets in the revenue streams that we are closing by the end of the year, and this will bring our working capital back to our target levels.

Onto growth, our major growth drivers for this year and beyond are pre-engineered buildings, our U.S. subsidiary PGI, hydraulics, large diameter tubing, and engineering services. Now all of these businesses are currently implementing their CAPEX growth plans, and once these assets are commissioned, they will strongly drive revenue and PBT growth.

That concludes my discussion on our financial performance for the quarter. I will now request our CFO – Mr. Shrikant Bhakkad, to provide his analysis. Shrikant?

Shrikant Bhakkad: Thanks, Aditya. Welcome to the shareholders in the 2nd Quarter for FY '23 Earnings Call. The key matrices as we see revenue, revenue is at 814.13 crores. There have been substantial improvements in our gross margins by 213 basis point, increase in EBITDA by 194 basis points. Cash PAT has grown and PBT also has grown consequent or year-on-year by 1%.

In terms of absolute numbers, profit after tax is at 22.36 crores compared to 16.38 crores in Q2 FY '23. This is up by 36.51%. With our continued focus on improvement of the margins and cutting down on the sales with the lower margins, you see the increased profitability of these businesses.

Though we are doing better in terms of overall metric tons in terms of perspective, but the revenue that you have seen has been flattened also because of the raw material prices in one of our subsidiaries.

Whenever you are growing and investing in growth, you tend to have a certain increase, and this is one of the things that we are seeing the change. Because of the low margin businesses, whatever we are cutting down, there are certain current assets which we need to collect it back, and there are higher margin businesses for which we need to fund the growth.

So, that result of the combination of both these things and with also the increase in the overall interest rate cost from last year to current year, there is an increase in the finance cost. So, we agree that there has been an increase in the working capital cycle, and we expect this to moderate over the next two quarters once we collect the old receivables and once our revenue ramps up. So, this is in line with our expectations.

In terms of salaries, this have decreased due to the onetime bonus that we had in one of our subsidiaries last year, and we expect that the salaries to stay relatively at this level or increase slightly from here.

Profit in subsidiaries has continued to increase over the last year, and with higher revenue coming in the future quarters, we expect this to further grow. Because it's a balance sheet quarter, I will just explain some of the balance sheet items that we have.

The increase in the capital working progress that you see, the total amount, this increase has been towards the two main businesses that we are deploying further capital, which will help us increase our revenue.

There has been an improvement in our short-term liquid funds, and that's where you see the increase in the short-term liquid funds of 18 crores. There has been a relative increase in the receivables and inventory as I explained earlier. This is due to the funding of the projects that we are growing our revenue. The overall increase in terms of the net worth of the company is 45 crores. This is relatively due to the profit that we made in the last 6 months.

The important thing to note is our long-term borrowings are reducing, and this is reduced from last March to now close to the extent of 22 crores where we have done the repayments. Increase in short-term borrowings and trade payables and decrease in the advances, this is a combination of again the working capital cycle that we have been funding for this project. A detailed presentation has been given to the investors.

We now hand over the call to the moderator for moderating the questions of the investor community. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Madhur Rathi from Counter Cyclical. Please go ahead.

Madhur Rathi: Sir, I wanted to know how we are on the progress of making an net profit margin of 5% and EBITDA margin of 10% going forward? And when can we achieve this?

Aditya Rao: Net margin will continue to increase quarter-on-quarter as for the reason that I had mentioned, which is higher margin revenue replaces low margin revenues which we are allocating. In addition to that, as revenue growth kicks in in this quarter and the next in Q3 and in Q4, both of those will tend to lift our net margins. From an EBITDA point of view, I think Q3, our EBITDA margins were at 9.67, no, consolidated is 9.35. So, for the same reasons as I mentioned before, one is the margin mix improving and also the revenue increasing. We expect that this should happen very soon on a quarterly basis.

Madhur Rathi: Sir, what would be our guidance for top line and bottom line for the second half of this year and the next two to three years as we see getting out of the lower margin business and growing into the better margin business for us?

Aditya Rao: We don't provide guidance on revenue for the years. What I can say is we expect our revenue to keep growing from our current base, and for the financial year in question, we expect our revenue to be our highest.

Madhur Rathi: Sir, on the US business front, sir, I can see our order book has been constantly in the range of 40 to 50 million. So, sir, is there an issue regarding our capacities in the U.S. or is there an issue in the market that our order book hasn't grown in those regions?

Aditya Rao: We predict that our order book in the U.S. will be growing. We are expecting several large order closure soon. So, the U.S. pre-engineered building market and the tubes market are much larger than our markets in India. So, there is no reason for any long-term non-growth of order book, but as you have said, we are adding capacity as quickly as we can in the U.S. Unfortunately, it takes time for projects to be added, but we are in advanced stages of what we call phase two and phase three of our CAPEX plans in the U.S. So, within the next couple of quarters, you will see our U.S. capacity go up and consequently, our revenue and profitability also trending up. That is what we are currently seeing.

Madhur Rathi: So, sir, are we running at an optimum capacity in the U.S. business?

Aditya Rao: Yes, we are. From a tonnage point of view, we are higher in the U.S. compared to last year by almost 30%.

Madhur Rathi: And, sir, what would be the increase in capacities that we are looking forward in that segment?

Aditya Rao: Could you repeat that?

Madhur Rathi: Sir, what would be the increase in capacities that we are planning in the US?

Aditya Rao: In the U.S., yes. So, as I mentioned phase two and phase three of CAPEX plans take us to an ability to near double our production capacity. In addition to that, I think we will be adding more beam lines and a structural line as well. So, over the next couple of quarters, by the end of this financial year itself, we will see significant capacity increases.

Madhur Rathi: And sir, just my final question, sir, what would be our investment for these capacities?

Aditya Rao: Most of the investment has already gone in. I think an additional investment 1.7 million is the US dollars about 12 crores.

Moderator: Thank you. The next question is from the line of Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: Sir, what would be the revenue potential of the CAPEX that we are going to commission by the end of this year?

Aditya Rao: We typically aim to have an asset flip of eight on an annualized basis on the CAPEX that we spend. So, the revenue to asset flip is about eight. That's what we are adding. And the vast majority of our CAPEX is at that level.

Moderator: Thank you. The next question is from the line of Deep Gandhi from Astute Investment. Please go ahead.

Deep Gandhi: My question is related to your PEB business in India. So, the order book for us is down quarter-on-quarter which is slightly down. So, are we seeing some little bit slowdown in India business, if you can talk about that?

Aditya Rao: No, I think right now, as of right now, our current order book in our PEB India business is about 660 crores. Unfortunately, right now the revenue potential in that business per month is only 72 crores. We are commissioning a Raebareli plant in the north of India by February of this financial year. That should take us up to at least 88 crores. So, as per that, we are ramping up our order book.

Reason you see a slight decline in order book is because we ourselves have declined some orders because our order book right now is vastly in excess of our revenue generation, and we need to quickly add capacity which we are at Hyderabad in Patancheruvu, in Chennai, and also in the north of India with our new plant which is going to be a big boost to capacity. So, as these capacities come online, we will be ramping up order book.

As of right now, we are deliberately keeping our order book back to where it is, but over the next two quarters, especially by February for commissioning happens, you will see order book increase at 660 crores. You will see it increase by about 50 crores every month until we reach about 800 crores, which is enough for us to find, to get to a revenue base of about 88 crores per month. So, we don't see any issues on India order book.

Deep Gandhi: That's good to know. And sir, just a related question. Can you talk about how much capacity are we adding in our Raebareli plant? And do we have any plans for further CAPEX also?

Aditya Rao: We do. I mean, ultimately, it will be a mirror of our Hyderabad facility, which is our largest PEB plant. So, we have about five beam lines in Hyderabad. We are starting Raebareli with two beam lines, but the north market which we don't really tap right now is as big as the west and south. So, we have high hopes for that business in the north, but I think the timing of it is that we add two beam lines by the end of this financial year.

So, from a monthly run rate point of view, if we can move from 72 crores to 88 crores, and then ultimately I think even 100 crores becomes possible. So, there is no cap on this. The market leader in this space has five beam lines in the north plant, five beam lines in their plant in Hyderabad, and another plant in Gujarat. I am not entirely certain how many beam lines they have there. So, we will still be number two, but a strong number two.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: We seem reasonably enthusiastic about our America business. Just wanted to understand what is driving our enthusiasm out there? And is there any risk of a slowdown if America goes into slowdown? Or are we just know gaining actually share from actually other competitors?

Aditya Rao: Good question. So, the metal buildings market in the U.S., now these are all numbers which are reported which are non-residential construction in the U.S. is a sector that is mapped out quite well and quite to a very large level of detail. So, reviewing those number shows that the market size in the U.S. for this, for metal buildings, for our product is about $7 billion. So, it's about 50,000, 60,000 crores.

Now our revenue there right now is only about $70 million. So, we are at a very low capacity market share. So, our ability to add market share is quite strong, plus because we do the engineering of our products in India, our cost base also is lower than our competitors.

So, the combination of our presence in the U.S., our manufacturing capacity increasing in the U.S., plus some of our costs being lower in a sustainable basis puts us in a position where we can grab market share without compromising on margins.

So, getting to even a 3% or 4% market share in the U.S. means that we will become hundreds of millions of dollars in the U.S. So, it can quite literally exceed the size of the entire company right now just in the U.S.

So, we are not worried about our ability to scale in the U.S. And as far as a U.S. recession is concerned, there has been talk of that, but for the same reasons, because we have a cost advantage and because we also have very low market share in the U.S. right now, our ability to, an impact on us because of a general slowdown would be less. As of right now, we are diversifying our customer base. We are diversifying our regional quote activity.

So, we do not anticipate that you will see I mean, this year was more revenue in the U.S. than last year, and we expect that to continue indefinitely. So, no, we are not concerned about the U.S. slowdown right now impacting PGI's revenue or margins.

Riddhesh Gandhi: And the other question was around CAPEX. So just wanted to understand your actually internal hurdle rates that you are looking at CAPEX in terms of either incremental ROCE or payback period or equity IRR. How do you evaluate CAPEX? And if you could just run us through your rough thresholds as you look at incremental CAPEX?

Aditya Rao: So, we typically look at putting capital investments into large sustainable businesses. Right now the four core businesses for Pennar are our pre-engineered buildings business unit, our tubes business unit, hydraulics, and engineering services.

There are other business units, but the bulk of the CAPEX goes into these businesses. When we deploy capital, we try to achieve a payback period of about 3 years for us on a PBT basis or a PBDT basis as it's more relevant depending on the kind where we are putting the capital into, what is a depreciation that's applicable.

So, effectively, we try to get a pretty high IRR, get our money back in three years, and that allows us to actually invest in these businesses. Practically speaking, we have a CAPEX efficacy of about 70% to 75%. So, we are effectively getting not 3 years but 3 to 4 years on our payback period. So, that counts to 25% IRR. So, we target 33%, but we get 25% and above usually.

Riddhesh Gandhi: So, then as our effectively increment CAPEX comes on stream, and we are like diversifying away from our lower ROCE to higher ROCE business, we would expect maybe the blended ROCE at a company level to be the north of 20% over the next few years.

Aditya Rao: I would say north of that. A longer-term plan, so we just conducted an exercise with BCG on what our next 5 years is going to look like. We have, I mean, it would be perhaps not appropriate for me to tell you exactly what we are targeting, but I can tell you that where we are right now, which is a 21% ROCE and Equity IRR of about 10%, 11%, our goals are to be substantially higher than that and to improve that quarter-on-quarter, year-on-year.

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

Hari Kumar: My two questions, sir. Can you throw some light on the Tech Pennar business unit? And the other question is regarding the Trichy boiler business. How is it turning out, sir?

Aditya Rao: So, Tech Pennar is our engineering services arm. What we provide is process equipment, design services, plant automation services, building information modeling, and also structural engineering services. It is doing quite well. From a run rate point of view, this year, we expect it to scale to about 30%, and it includes structure engineering, everything. It's about 70 crores, and the margin on that also, it's a highest margin business as well. So, it's quite scalable and it is doing quite well. We expect in the next few years for it to cross 100 crores, and we consider it one of the core capabilities of Pennar from a product development point of view.

The boiler business has also started doing well. It comes under process equipment. It has now breached 100 crore run rate, and it's achieved 3% PBT. But we expect that to increase as the scale comes in. The kind of boilers and process equipment we are targeting would put us in competition with Thermax and Cheema and others. So, the business can grow to multiple of 100 crores, and we expect that to happen over the next few years.

Hari Kumar: And one more question, sir, regarding this trade receivable in non-current assets of 30 crores. Can you throw some light on that, sir?

Aditya Rao: Which one?

Hari Kumar: Trade receivables in non-current assets, 30 crore?

Aditya Rao: Non-current, other non-current assets are predominantly the amounts which we need to receive, what the long-term deposits that we have given for various government and the other facilities part of it. That's 22, right, other non-current assets?

Hari Kumar: No, the trade receivables part, sir, in that.

Aditya Rao: Trade receivables parts, those are retention monies, which are not due now. As and when these monies are due, we will classify from non-current assets to current assets.

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

Dilip Kumar Shah: So, basically, two questions. One is regarding the standalone business. In the last say eight odd quarters, the standalone business hovers around 550 to 650 crores per quarter, around 2,000 crores in a year.

Now the profit after tax in the worst quarter was around 1.7%, and the best quarter is around 2.5%, 2.6%. And we know, for sure, that the services business, engineering products business, tubes business, and some part of the water business are double-digit margin, which will be around 3%, 3.5%, or 4% kind of PAT. That will be around say 1,000 odd crores.

So, the other 1000 crores by backend calculations will be around 0% to 1% kind of a profit after tax business. Is this my correct understanding? And can you just elaborate on what kind of business that gives us 0% to 1% PAT, which is almost 1,000 crores, one-third of our business? So, if you can just comment on this?

Aditya Rao: So, if I understand your question correctly, you are saying that some of our businesses are higher margin. So, you have derived the net profit projection from that, and you have taken the remainder of the business, and you have then applied a differential profit, the differential profit you have allocated to that business, and you have said that is at a lower margin.

Therefore, I am not sure that would be the best way for us to understand our business. What does happen, however, is that we are a company that's divided into nine business units. Each of them have their own capital allocation. Each of them have their own revenue and profitability. And our goal is to work with our major business units to drive their revenue and profitability margins onward.

Once that is done, however, there is a corporate cost involved, a capital allocation cost involved, other fixed costs that we have which are not allocated at the BU level. So, those are the ones that are perhaps bringing down the overall net margin levels down to where you see them, where we have a PBT of about close to 4% in this quarter.

However, as we add scale and as we retire low margin revenue, what does tend to happen is that your EBITDA margin goes up, your contribution margin goes up, your EBITDA margin goes up, and ultimately that same fixed cost that you have at a corporate level gets allocated on a much larger base as your revenue grows. So, the combination of these two factors tends to drive our PBT margins up.

So, while, yes, engineering services is very high margin, I speak at the BU level profitability. At the corporate level, these costs that we are not allocating would bring down margins uniformly across all of the BUs. So, our job right now is to make sure that we scale well enough and add enough high margin products so that there is a lot more drop down from our operating margins to our net margin.

So, any revenue we add, our contribution or our operating margin should drop directly to our net margin. So, do take it as a blend. Prospective margins in any one BU and then subtracting that and assigning the remaining profitability and seeing the others at 1%, 2% would be not the best way to look at this.

Dilip Kumar Shah: So, I am basically looking at the standalone business. You have given the numbers in all quarters, and I am saying standalone business as a whole has been between 1.7% to 2.6% profit after tax for last eight quarters.

So, even if I don't want to get into the business unit level as a standalone business which is around 2,000 crore, and that I am sure has a lot of transaction with the subsidiaries in U.S. and Germany, but even if I take that into account, it's 1.7% to 2.6% PAT for last eight quarters, and that's where the question comes that as a whole if our objective is to go to 4% as you have stated in last couple of calls, 4% PAT and 2,000 crore of business is at 2.2%, 2.3% average margin, how will that happen? That's what my question was.

Aditya Rao: So, when we say that our overall margins would grow, that would be impossible to happen without a standalone margin also growing. So, standalone margins and the consolidated margins have both grown over the last eight quarters. I will check on the range bound nature what you have mentioned. As of right now, the overall margin net profit is about 2.75%, and the net profit margin also is above 2%. Both of those will grow. And the reason for that is as I said, whatever revenue is being added and whatever revenue is being replaced are at higher margins, are at an operating margin of above 15% to 20% or even beyond that.

So, you will continue to see margin expansion and over the next few years, you will see net profit margins also cross about 4%, and you will see consolidated margins also cross more than that. As it stands right now, our U.S. business and our international business is at a much higher margin, and we are working to get our standalone margins up as well, which will happen.

So, overall, you will see standalone and consolidated margins improve quarter-on-quarter. It's already the consolidated is already above 4 for the quarter. This is PBT percent, I am sorry, not PAT, but we are quite certain of continued margin growth on standalone and consolidated.

Dilip Kumar Shah: No, if you look at the annual report also the Pennar global margin contribution to the overall 75, 80 crores that we did then you will get the number. But I understand what you are saying. Essentially, you are saying the scale, and the quality will improve the PAT. And so how is the direction, the business mix direction is, if you can just elaborate a bit in terms of because you have nine divisions, but you don't give nine divisions' numbers because it's very hard to make operating level how each business is doing. So, if you can just give a qualitative color on how the mix of business in the standalone, I am not worried about the U.S. or German business I have seen the Pennar global numbers. They look excellent. But again India to India standalone business, that's what I am looking up.

Aditya Rao: Understand. So, as I had mentioned, our major growth catalyst, our growth drivers right now, you can think of Pennar mostly as four verticals which are going to scale and scale strongly. One is our pre-engineered building line, which includes our India and U.S. business, but let's talk about India alone standalone for right now.

In the standalone business itself, the four verticals that are going to scale is pre-engineered buildings, our hydraulics, large diameter tubing, and engineering services. All of these businesses, as I had mentioned, are currently implementing CAPEX growth plans, and we are quite confident that these revenues will scale quarter-on-quarter, and you will see, for example, Q3 standalone will be better than Q2 standalone, Q4 standalone will be better than Q3 standalone.

So, what is driving growth in the standalone business, the revenue growth mostly will come in our pre-engineered building line, in our hydraulics line, large diameter tubing, and our engineering services. There are some impacts of body in white and boilers also growing, but these four verticals are what you should look to for sustained long-term growth, which is high margin.

And as this growth comes in, operating profit increases, contribution operating profit increases, drops down to EBITDA, drops down to PBT, ultimately getting us to north of 5% from a PBT point of view very soon. We are already at 4% and beyond that as well over the next few years. That's our base operating plan.

Dilip Kumar Shah: Coming to the U.S. business we have been doing 150, 170 crores per quarter. I am just forecasting, kind of deducting from the standalone and consolidated number. So, this number is likely to grow in future. If I remember you were talking about around $50 million of pending order book, if I remember correctly. So, how is the outlook for this US?

Aditya Rao: So, we will not be, let me try to answer that without giving guidance. Our U.S. business will keep growing as for the reasons that I had mentioned that are addressable markets there are high. We are deploying capital to increase our capacity, and the combination of good markets and good assets will always result in revenue growth.

Whenever you have a problem with revenue growth, it's because either the market is, addressable market is not where it needs to be or is bad or the assets you have are not enough. That's the only reason for revenue not to grow or even decline.

Both of those are taken care of. I think we have a high quality not just in terms of equipment capacity and the people we have there, some of most of them would be considered industry veterans. So, they are mapping out the growth of this business. I can certainly tell you that our current revenue base of about 80 million for the year is very low for PGI in terms of this long-term potential. You will see that grow.

Now you may have quarter-quarter fluxes because the U.S. tends to be a very, yes, raw material prices up, down, quarter-quarter swings, and even cyclicality in terms of the fourth quarter for the U.S., the third quarter for us tends to be a little muted, but year-on-year you should absolutely expect strong growth in the U.S. in PGI. And that's true of PIL as well, but yes, definitely true of PGI as well.

Dilip Kumar Shah: So, in the related party transaction, your US subsidiary business from say standalone to the U.S. is from 25, 26 crores for 6 months. So I understand you had some engineering component business which you used to do, which used to be 24, 25 crores per quarter. So, the U.S. business is completely sourced locally in U.S. now. Is that the right understanding?

Aditya Rao: So, for our metal buildings, it's completely locally sourced. We manufacture everything in the U.S. And there are no intercompany transactions. For our tubes business, we do supply from India to the U.S.

Dilip Kumar Shah: Which is some 25 crores for 6 months. So, is it not a very small number?

Aditya Rao: Yes, it will scale also. There is also our hydraulics business which is also scaling quite well and that too will be, is your question that will India to U.S. revenue increase? Is that the question?

Dilip Kumar Shah: Yes. You know, there is everybody's talking about a huge tailwind in terms of export of capital goods and component. So, I am just wondering whether…

Aditya Rao: It's a great question. I just wanted to make sure I understand it properly. So, I can assure you that our hydraulics, our tubes business, our engineering services business, all of which are India to U.S. will continue to grow. I can't comment specifically whether 25 crores is less or more, but I can tell you that based on what we are seeing on order booking in hydraulics, based on what we are seeing in new customer addition in engineering services, I have absolutely no concerns on India to U.S. revenue growing. And as you would realize, that's also high margin business. So, it's also something we are consciously growing.

Dilip Kumar Shah: And the last question is about solar business. I am not too knowledgeable about that business of yours, but if I have read it correctly, you had invested in a large solar panel thing around 5, 6, 10 years back, and it was a big very hopeful story. Can you just give some light on the solar panel business? Are we really being priced out? Is it really a profitable business? Are you focused including the large solar EPC deal that we had done some time back, I think not done, we have got an order from one of the public sector companies, and that's my last question.

Aditya Rao: So, solar EPC is not a sector that is identified as a major growth area for us. We have strong capabilities in that business, and we have a strong order book in that business as well, but the businesses that we would want to grow year-over-year 5 years from now make them, build them into multi-thousand crore businesses each of them, that would be the PEB business or hydraulics business, PGI, tubes, engineering services, and a process equipment. And all of those have the potential to all be multiple thousand crores, and if we focus on them, we will be able to scale.

Solar is a very good market opportunity. To your question of whether it's possible to be profitable there, absolutely. Especially, if you are exporting from India to the US, there is a tremendous amount of potential in that. But I think there is a lot of people building up a lot of scale in that business.

In fact, we are part of a lot of our customers in pre-engineered buildings are building up that scale as well. This includes Reliance. It includes starta solar. It includes several other companies as well. So, we are talking 20 Gigawatts for Reliance, right? So, there is massive capacities coming online.

So, our module capacity would need to be niche. It would need to be very high efficiency, very specific end use. Otherwise, if we just go for the regular ToPCon on Mono PERC solutions, then, I mean, economies of scale will be difficult to achieve, because there are lots of people building up massive capacities on that.

So, that's our strategy, but as of right now, we have not grounded that. For the next few years, we will be focusing on growing these opportunities, and there is enough on our plate, and that is enough for us to realize our growth aspirations, our margin expansion aspirations. And so as of right now, that's the situation. We have revenue streams in all of these businesses, but we don't intend to grow them substantially.

Dilip Kumar Shah: No, that's great to hear. Because finally, focus is what delivers results, and we have just in too many arenas. So, this panel business is now just on expansion. You are just putting that on the side line. Is it the panel? There was a fantastic video I saw about the Pennar panels. So, that facility and that business is just on the side burn now?

Aditya Rao: We do make modules, solar modules, but our capacity will be quite low. I mean, we will be at around 500 megawatts of capacity. So, as I said, we will not be a consumer of a lot of capital, and as I agree with you, we are in many different kinds of businesses. We need to start focusing on four or five massive growth opportunities and scale those opportunities, and we will be doing that. But as of right now, yes, we have existing solar module sales, and we have existing solar EPC. Yes.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Vikram Vilas Suryavanshi from PhillipCapital (India) Private Limited for closing comments.

Vikram Suryavanshi: We thank the management for giving us an opportunity to hold the call and taking time out to interact with the stakeholders. Thank you all for being on the call.

Aditya Rao: Thank you. Thank you for hosting. On behalf of the management, we are signing off.

Vikram Suryavanshi: Yes. Thank you, sir, and Happy Diwali.

Shrikant Bhakkad: Thank you so much and Happy Diwali to you.

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