"Pennar Industries Limited Q3 FY22 Earnings Conference Call hosted by PhillipCapital (India) Private Limited

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MANAGEMENT: **MR. ADITYA RAO – VICE CHAIRMAN AND MANAGING DIRECTOR, PENNAR INDUSTRIES LIMITED.**
MR. SHRIKANT BHAKKAD – VICE PRESIDENT, FINANCE, PENNAR INDUSTRIES LIMITED
MR. J. KRISHNA PRASAD – CHIEF FINANCIAL OFFICER, PENNAR INDUSTRIES LIMITED.
MR. MANOJ CHERUKURI – HEAD, CORPORATE AFFAIRS, PENNAR INDUSTRIES LIMITED
MR. K M SUNIL – PENNAR INDUSTRIES LIMITED

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

Moderator: Ladies and Gentlemen, Good Day and welcome to the Pennar Industries Limited Q3 FY22 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you, Sir.

Vikram Suryavanshi: Thank you Janis. Good morning and very welcome to everyone. Thank you for being on the call of Pennar Industries. We are happy to have with us management of Pennar Industries here today 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 – VP Finance, Mr. J. Krishna Prasad – Chief Financial Officer, Mr. Manoj (Head Corporate Affairs) and Mr. K M Sunil.

Before we start with question-and-answer session we will have opening comments from the management. Over to you, Sir.

Management: So, as I was saying I wish all of our stakeholders on this call are warm welcome to our Q3 FY2022 Financial Results Conference Call. The structure will be as per standard format. I will first take us through the company's financial numbers for Q3 FY2022 and for an analysis of our performance for the quarter our CFO Mr. Shrikant Bhakkad and Mr. Krishna Prasad will then present their analysis of the numbers and their commentary on the quarter. We will cover financial metrics including revenue growth, profitability growth, margins and capital efficiency ratios. So, my initial comments in the third quarter ending December 31st we had consolidated net sales of INR 533 crores, our consolidated PBT was INR 14.13 crores and compared to the third quarter of last year the net revenue was higher by 29.38% and the PBT was higher by 315% mostly due to Q3 last year being a very muted quarter because of the pandemic.

On a sequential quarter basis our PBT was higher in Q3 FY2022 than in Q2 for this financial year by 28%. Profitability wise Q3 again saw a consistent and sustainable increase in our profitability compared to the previous quarter Q2. We believe this trend will continue and are very confident of good growth in PBT in Q4 from Q3. It is important to mention that Q4 last year saw capital gains being recorded from the sale of one of our land parcels to the tune of about 20 crores so that should be taken into account when we speak in a few months for our fourth quarter and for the financial year performance.

Next, I will cover liquidity our working capital usage from a number of days point of view as further improved in Q3 to 91 days from 103 days in Quarter 2. Our medium-term target here is to achieve 75 days of working capital for the company and we intend to take a couple of quarters to achieve this. If you recall in the last conference call we had said we would want to reach 90 days in a couple of quarters or in one quarter we more or less reach 791 days right now. So, we are resetting our target to 75 days which we believe has been benchmark well with industry standards. I will next talk about growth we are currently executing the following projects body invite large diameter tube an expansion of our hydraulics capacity, hydraulic cylinders and an expansion of our module capacity. We expect that these projects once commissioned they will increase a PBT substantially and allow us to continue on our profitability growth journey and we are eager to get these project often running soon. In conclusion our focus set Pennar will continue to be on sustainable profitability, appropriate use of working capital and maintaining liquidity and finally having a sustainable growth plan and add for our PBT growth. As we continue to make process progress sorry on the strategy I thank all of you for your support and agenda. Thank you again and I would like to hand the call over to our CFO for further analysis.

Shrikant: Thanks. Good morning to all the investor community. Pennar Industries Q3 FY22 we have achieved the consolidated revenue of 533 crores which is up by 29.38% in terms of EBITDA it is at 46.93 crores which is up by 25% and PAT at 10.7 which is up by 291%. In terms of we have also started comparing the cash PAT is 24 crores and it is up by 61 crores in Q3 FY22 and the highlights these are the highlights for this quarter. Our order book of PB has grown it is not 406 crores in terms of the overall days.

So, this quarter has been good where we have achieved our PBT and the target that we have set ourselves we have improved in terms of working capital number of days and our US accent is on the part and as it stabilizes its operations in the coming quarters.

So, that is all I have for this and we can now move to Q&A.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Jayesh from ValueQuest. Please go ahead.

Jayesh: Sir I have two questions firstly on the order book so this quarter we have reached 400 crores order in the PEB segments, so what do we see the order book going forward, so how is the visibility in the order book?

Aditya Rao: So, our order book business is currently in PEB and in US businesses for both these verticals we project continued increase in order book and our US business is currently at about 42 million order on an order book balance open order book basis and as you had mentioned as India PEB business is at 406 crores so this will continue it may increase also. We are aspirationally targeting 50 I am not committing that, but that is what we are targeting for our India PEB business.

Jayesh: And secondly sir question on margins so we have not seen any margin pressure due to the commodity price increase what explain the reason?

Aditya Rao: We have a vast majority of our businesses the time gap between when a price increase in declared in the market and our ability to pass it on to our customers is quite quick, some of our automotive businesses these are an automated price increase linked to the SIAM Index as it is called the automotive price index. So, there is not much we have to do, we invoice them and then we supplementary invoice them in a few weeks. So, consequently we do not get exposed to raw material price variations. Another aspect of this is with some of our supply chain raw materials steel vendors we have quarterly contracts so there is a price increase let us say in the month of October or November. We only see that increase in January or the fourth quarter after two months or three months. So, on average we have one and half month gap on average sometimes it could be as high as three months. From price increase being recorded in the market and for us to be able to see it so that is also helping us out a little bit. This is not across entirety of our procurement, but some aspects also. So, because of these reasons we are not projecting we have not seen clearly because our EBITDA margins are increasing and we are not projecting a decline in profitability due to raw material price variations.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Sir particularly in custom design and building solutions where I think significant part of PEB business on QoQ basis we are seeing some weakness on margin so you can give some outlook about the profitability of this custom design building solution segment and what kind of a margin or sustainable margin or long-term margin one can expect in this businesses?

Aditya Rao: So, custom design buildings effectively is our pre-engineered buildings business in India. Our engineering services business in the US and PEB business in US those are the three verticals which are comprised on that from a margin point of view they typically our US businesses Q4 tends to be a little slow while we saw that in some of the verticals we did not see it in all of the verticals. However, going forward Q4 at least I can definitely project that we will have stable order books and stable profits operating margin for all of these business verticals and we do expect scale to come in our India business for PEB and also our engineering services verticals. So, I would not guide to any decline in operating margins for the custom design building services verticals that we have.

Vikram Suryavanshi: You have given some idea about growth in PEB order book can we expect it, but looking at the kind of manufacturing growth government is targeting with couple of PLI schemes and all, so are we seeing traction in ground level or how we split back for industries to set up factories and all that so largely we are really seeing some kind of a ground level activities or you see it will take some quarters to really pick it up?

Aditya Rao: Well, the government performance linked incentive schemes are good for the market as a whole. We ourselves are not depending in that or mapping to that it can apply to some of our investments in body invite and our solar module businesses, but we are not taking that into account it is our belief that businesses should stand or fall on their own merits and not on incentives. So, we are not really we are making the efforts to apply, but our growth strategy is not predicated on those at all. We do not want our growth strategy to be dependent on incentives from the government….

Vikram Suryavanshi: And last question from my side there has been continues push about renewable energy and lot of again renewed talk on solar opportunities in this budget also, so how peak would be this segment for us in terms of solar and if you can give some outlook and growth for us in terms of solar segment?

Aditya Rao: Solar and the energy sector would be very important for us. We are continuing to add capacity as I mentioned currently at about 100 megawatts, we will ramp that up to 500 megawatts very soon. There is no end to this the technology continues to evolve and we believe we figure out a way to stay a rest of technology changes and make sure that the project does not become obsolete that we stay relevant as the years go by in solar module manufacturing and also other aspects of the energy sector. So, it will continue to be extremely important for us from a revenue point of view if you look at five major growth verticals for Pennar which is automotive, infrastructure, energy and also rail and aerospace and engineering services, energy solar is one of the big growth drivers for us. So, it is important for us.

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

Aditya Sen: I have this question about the ERW plant that we have in Chennai that was not PBT positive by last quarter and it was supposed to become PBT positive by Q3, so do we have any updates on this?

Aditya Rao: Yes and it is not good news it is a mixed bag we have had problems because of the Omicron variant and the surge in cases. We had problems commissioning the plant on time. The plant has now been commissioned we are undergoing trial production, but that has unfortunately shifted us reaching our target profitability for that by a quarter. So, we are now projecting Q1 as when we will reach, but the plant itself as we are in February right now it has been commissioned and we are making progress, supplies have started there is a one quarter delay in us sitting a target profitability in the ERW plant.

Aditya Sen: And we were supposed to like are we back to our pre COVID capacity utilization levels?

Aditya Rao: Across verticals yes and no in our PEB verticals in our tubes verticals we have almost there and in some others we are vastly in excess of where we are like US plant, our hydraulics capacity for example. So, it is a mixed bag, but overall, we are at about 50% we have reached 70%.

Aditya Sen: So, we are roughly around 50% of capacity utilizations?

Aditya Rao: It can be I request cautioned when using that number because it can be very misleading. There are some business units where we have a long way to go and there are some we have to add capacity immediately.

Moderator: Thank you. The next question is from the line of Venkat Subramaniam from Organic Capital. Please go ahead.

Venkat Subramaniam: The railway minister in response to a budget sounded very optimistic on quite a few launches, etc., my question what is the ground reality you sounded a little cautious with respect to the railway vertical of our, are we seeing any positive developments there which is one and two on the ground level check in response to a previous question you said while you do not want to depend on any government support, the government action should possibly be seen on the ground fairly soon so I was wondering what you see with respect to our PEB operations so really two verticals?

Aditya Rao: So, the railways the budget as such spoke up for our rapid expansion of lines, it spoke of 400 additional coaches Vande Bharat coaches if I am not wrong with the 400 number it is just definitely the benchmark all of those are good things my concern here however is this is it is dependent on what ICF and NCF do this isn't to them, but their outlays have not exactly been very stable over the last three, four years it has been very volatile. ICF has gone from 3,000 coaches to 1,000 coaches to 2,000 NCF. For us as a corporate we make investment and capital allocation whether it will be working capital also decisions based on how dependable and sustainable we think revenue is will that business exist five years from now. It is not project business where we allocate capital, get our revenue and profitability and exit these are hard physical assets we need to build up. Consequently, I would still continue to be conservative I think the intent is good, but will it come to an action I do not know, but we are hopeful. On the ground action we are seeing some increase in our railways business that I can commit to, but how sustainable it is what the positive buyer there is over the next couple of quarters I cannot say. So, government incentive as I had mentioned we do not depend on them, but we do I mean just we received sales x incentives also recently we receive, we are applying for others we continue to apply for them and if the government as you said on the ground government incentive action is there. We are there for it, but as far as our ability to project predict margin and take CAPEX investment issues are concerned it will depend on them because we just tend to have very long tails it is very possible for us to be granted a government incentive and receive it 5 years or 10 years later not exaggerating this it will happen. So, in that scenario I think it is better to now take them into account as hard, slows or hard annuity-based revenue streams. It is not appropriate to do that in my view, but we will apply and see where we get and as they come in on accrual basis we will recognize the profit and obviously declare it.

Venkat Subramaniam: I am sorry I think I probably phrase my question inappropriately I was referring more to the CAPEX and capital formation based on government confidence spend and then actually wanting to spend, etc., so that in addition to some private some early signs of private CAPEX should probably result in higher inquiry levels and execution on the PEB side, so are you seeing early signs of that is really what I ask?

Aditya Rao: I am sorry I totally misunderstood your question. Short answer is yes we are in the last month itself we have had record order booking in our PEB business verticals and we are seeing that is it because of the government incentive again I cannot say, but private sector gross fixed capital formation, CAPEX is definitely on our way that I can definitely confirm.

Venkat Subramaniam: And follow up question on our earlier conversation on railway in couple of previous conference call you talk about not wanting to depend on Indian railways alone and improving our technology to improve our offering for overseas customers, etc., and you said there is some work in progress and then you will come back and share with us, so is there anything interesting that you want to talk about?

Aditya Rao: Yes based on corporate actions we are considering specific to our railways and aerospace business internationally, but yes that remains a narrative. My request is you give us a quarter more to give you some news on this, but yes we do. There are actions which are on the table which we have green lit which we are about to take, but as of right now that remains unspecified, but these will not be massive in nature I do not to set expectations right this is an incremental investments and customer acquisition steps we are taking so some good growth in a railway business, but from a materiality point of view it will be okay it is not something.

Venkat Subramaniam: We have seen that a possible joint venture acquisition last quarter has there been any development there and can you do you want to throw more light on that?

Aditya Rao: So, with a company called Cadnum, we have executed a term sheet and we are in the process of trying to acquire them, but no formal decision has been made. Once it is made we will communicate that, but that is what I am referring to that is the opportunity we are looking at.

Venkat Subramaniam: And lastly in response to a previous question you talked about our possible offering on the solar side, will our offering is more on the technology side because we probably my short question really is will there be a significant value ad to the customer in what we are offering and is it sustainable?

Aditya Rao: We will see module business and that is if you are asking if it is commoditized or if the value addition is significant it is it is double digit operating margin which is what we look for and it is a scalable opportunity and there are substantial entry barriers not just a capital thing you need to have proper certification in place and if it marries well with our MMS business and our solar other business verticals including building integrated Photovoltaics. So, there is a differentiated value proposition that we have in solar and not commoditized but that being said yes we have competitors as in any of our businesses and I guess the best way you can answer your question is I am confident of double-digit operating profits in a solar business for the foreseeable future.

Venkat Subramaniam: On our US operations you said that we are sitting on close to about $40 million plus kind of a current order book since it is a fairly recent operation we want to spend a little more time on that in terms of where we want that to go, how well are we executing and what the challenges are etcetera?

Aditya Rao: Let me give you a broad level overview so our US operations are in a subsidiary ascent building systems, they have done a really good job of implementing the plants, the core team is in place we have a strong talented team over there which covers of our sales operations, engineering and also the backend operation such as finance and HR. So, we have done a good job building up a strong order book as I had mentioned and that has started resulting in revenue as well. As we speak they are profitable and they are increasing their margins. I am confident that in the fourth quarter this quarter they will achieve and exceed their target profitability levels on a percentage and value basis, working capital efficiencies is also quite good their working capital days is well in control and the combination of good execution skills, good asset, good order book and adequate liquidity being available will in my view ensure that they achieve their targets from the revenue profitability point of view they will probably exceed as well. So, I can give that color and in the next quarter we will be able to give you I guess even give you a more in-depth overview of what is in store because they are growing quickly they are an ambitious team, but I think it is important for us to walk before we run. So, we are holding them back a little bit make sure that they hit a revenue profitability clearly that working capital also now is in control and then we will slowly, steadily sustainably scale up that is our, but so far they have outperformed.

Moderator: Thank you. The next question is from the line of Dilip Sahu an Individual Investor. Please go ahead.

Dilip Sahu: One that is bit of a concern is still the profitability of the business we are quite a distant away from our desired level of profitability and my question is that if I look at last 20 odd quarters that I have been following it has been around 500 to 550 crore kind of revenue accepting the COVID quarters where there was a dip of course the business mix has changed for better, but still the top line is around that, so my question is when how do we go to the next orbit of growth maybe 799 crores quarters, with the proper mix of business what are the levers so that is question number one primarily we have to bucket the business some 14% operating margin business of 7%, 8% operating margin businesses, so how do you move obviously for the better that is question number one, question number is little bit more color on the US business the ascent business if I remember correctly we are in a 15 million order book in February last year went to around 30 million in the middle of year and now we are at 42 million just want to understand the rundown of this order book how does it really the execution happens because the way we are ramping up order book is when is it going to reflect in the revenues that is my second question?

Aditya Rao: So, two questions one is how to be you notice as you have said and your observation is right that a profitability margin our PBT is still 2.5% which is not good and you said what is our plan to grow profitability and revenue effectively grow that from a value and percentage basis that was a first question second question on US order book right now is scaling up quickly it is more than tripled in the last one year what about revenue as per that so those are the two questions you had and the first question from a revenue profitability point of view because we are a blend of businesses the revenue may look stable, but effectively the mixture has undergone a change. Over the next few quarters as I had said we will continue to consistently add new revenue if we are something like 100 crores let us say per quarter we will see substantial improvement in our PBT percentage and value because our operating margins are all about 10%. So, lot of these are low base effects which we are well placed in order to grow. So, I am quite confident that you will see and I would also suggest at this point I hope you will buy my argument on this, but I would suggest is do look at PAT plus depreciation PAT percentage plus depreciation also as a percentage as the cash the company throws up because we do have a very high depreciation and those are not actual expenses. So, if you were to add both of these up then you get a substantially better number. My argument here is basically that number should at least double so in extension our PBT percentage should at least increase by about 4% to 5%. We are hard at work to effect this and it is not going to be very difficult for us to achieve this all we need to do is that add 100 crores for quarter we only need to go 600 crores, 650 crores in a quarter, 100 crore additional added at 10% all of that drops down to PBT and it will increase our margins substantially. So, that is our goal going forward to keep adding double digit percentage revenue, operating profit revenue and we have order books which are in place for that. So, the combination of scale and the margin profile increasing will give us that. The timeframe in which you should see these things happening is over the next financial year on that I think my team and I can definitely commit to you. The second question you had which is our order books are high in the US. Yes they are high and you are seeing revenue increase as well in the next financial year very conservatively I can say they are going to do about 50 million we will almost certainly beat that from a revenue point of view in our US business and in our international businesses, but you will see a translate into revenue growth, but not at the same clip we are not saying we are not saying we are going to triple it because we are pushing our order books out more and more we also have price escalation clauses in our order book. So, as we slowly increase capacity careful increase capacity we will go long in order book sometimes it will look like we are booking too many orders, but we will be disciplined about it, we will make sure we are not exposed to commodity price risk because we will have escalation clauses and slowly and steadily we will increase our US revenue. So, you can count on double digit growth for our US businesses in next financial year compared to this financial year and you will see this quarter-on-quarter as it move forward.

Dilip Sahu: One more question if I may is a suggestion more than a question is when you communicate to the market the order book position I think there need to be a little bit of a structure and a frequency which is sometimes we come in January, sometimes in December once in a year sometimes twice, thrice in a year so please give me some structure and some cohesiveness to this communication to the market and regarding that when you obviously communicate you should give the timeline of the order book instead of keeping the open ended because one does not know reading the communication whether the order book is for the quarter or 6 months or the year so that is one suggestion that I had?

Aditya Rao: So, we have done some Math to this you are right it has been intermittent so what we decided to do is do an order release once every two months. The intent for this is more to put this into the public domain so we can talk about it too with investors and others that is the intent here. We will make sure that we the frequency is once every two months it is close. So, the calendar for our order book press note is frozen and we will release it. Giving clarity on the execution time period we will endeavor to bring that answer I mean obviously the operating period for different orders book is different, but I mean it is easy in some sense to calculate because in a month we do about somewhere between 200 to 220 crores so effectively if we are releasing an order book every two months then it pertains to changes in that because we are giving the orders we have booked in that two month period and effectively your order booking should ultimately should equal your revenue so that is an implication we have because otherwise our order books keep growing and our revenue since it currently it becomes a multiyear order book which we do not have in any business. So, we will try to get more clarity on the timeframe in our press release.

Dilip Sahu: So, one last small question regarding the other income for this quarter it has gone by around 8.5 crores, 9 crores on a smaller revenue sequentially I just wanted to know what is the reason that is almost 1.5% of our revenue?

Aditya Rao: Could you repeat the question there was a lot of static in line. Please go ahead.

Dilip Sahu: The other expense this quarter compared to last quarter there has been an increase of almost 8 crores?

Shrikant Bhakkad: Other expenses basically contains of the sub contract and the job work being process charges that we have which occupies a majority of the expense which is approximately increased by 4 crores and we have erection expenses there and also the stores and space consumption and the freight, so these are the main content of the other expenses from the primary reason for increase is on account of change in the freight mix where we have shipped earlier, job work charges and erection expenses increased and the erection related revenue increase. So, that is the mix step certain part of it do not get classified in any of this A to F categories all this close to other expenses.

Dilip Sahu: As a percentage we will fall back to normalcy because freight will eventually normalize?

Shrikant Bhakkad: Freight will eventually normalize also in terms of job work processing charges is linked to more on erection revenue and predominantly the changes because of the sales mix.

Moderator: Thank you. The next question is from the line of Arvind Joshi from Bataleur Advisors. Please go ahead.

Arvind Joshi: I had a few questions first of all I would like to come back to our railway business you do not seem too excited about it, but the FM and the subsequent noise made by the railways was quite encouraging and they are going to order 400 trains I believe 400 coaches I like to get some clarity on that and I like to also know we were a major vendor for the train 18 project where we did lot of the frame, the coach power component, the internal, lot of components were done, what exactly would we able to do in our project like Vande Bharat could you just elaborate a little bit on that and I would like to also understand should I ask the questions first and wait for the answers or I will ask them one? So, I would also like to understand we were doing some things in solar and I would also want to know what are the areas where we are going to enhancing going to do something to do enhancing our footprint in solar into more value added areas and where the redundancy do not turn to be too expensive like they have turned in the past and also looking at the kind of work that is coming from data scientist this PEB participate in the data center opportunity by any chance also I would like to know what are the special competitive positioning parameters that enable us to get more work in the US considering the kind of aggression you are showing in the growth prospects you are trying to get or the US market and finally on the suggestion somebody made to be a little more frequent and we have disclose so I think you should make disclosures the moment there is any material development share it transparently and immediately is my feeling?

Aditya Rao: Railway coach set not coaches 400 coaches is not matter 400 coach set is a substantial statement of intent. I do not want to obviously criticize our something they have their own if they measure themselves by I would not say that I am not eager about the railway business, I am not discouraged anything I simply has the potential to the great business to be very good business. I am just saying we cannot be dependent completely on railway board orders I think we need to have a wider net and Vande Bharat 400 coach set we have played a pretty big role in the product development and we are continuing to work with ICF on this.

Arvind Joshi: Will that set us in a good stretch for the future orders?

Aditya Rao: Could you say that again.

Arvind Joshi: Could that be a good positioning for us to look out for fresh business in the Vande Bharat trains I have not experienced learning curve?

Aditya Rao: We are continuously coating and receiving orders from them I do not want to leave you with a picture that I am discouraged or disheartened with the railway board order it is fine I am just saying that it is by the very nature of the beast is that you cannot plan for next 5 years on those things so there is a lot of hysteresis in it so that is the only thing I am communicating. Vande Bharat we have capabilities entire side was sets as we call them which consists of the sidewalls, the roof, the truck floor, the assemblies, end walls, under frame assemblies what are called as front parts. All of those have strong capabilities that we have and when they rampup when the railway board ramps up orders when I say ramp orders we are ready to service them, we are at the disposal so that is question number one. Data centers we have done lot of work on data centers for several companies such as controllers and others we worked with them and we will continue to have that capability effectively data center is a multistory building as we call and we have made many of those. So, yes the PEB market for that will be quite good just like warehousing is project it would do really well, the explosion of big data, the explosion of storage requirements in India will ensure that data centers continue to be a good opportunity for us. It looks a lot like the warehousing sector from a point of view of addressable market I mean as warehousing grows data centers tend to grow for some reason I do not have a reason for that, but that is what seems to be happening. Work in the US our goal is to replicate everything we are doing here ultimately which is high margin in the US and as you may be aware the addressable market in the US for our products are very huge. Typically, our comparison the addressable market for pre-engineered buildings in India is about $800 million in the US is $5000 million so there is a 6x, 7x more than that sometimes I am going to have and we intend to take advantage with larger addressable market in the US to grow and sustain. So, we are not constrained by our markets from a growth point of you in the US. However, we will do it in a measured way slowly, carefully, methodically what I do not want to do is dramatically increase our revenue of their employees, tremendous amount of capital and then not being able to deliver on execution or got further profitability. So, we are a profit focused entity we are for profit entities so we should act like that and make sure that risk management also is going hand-in-hand with growth strategy. Disclosures I have understood we will try to make it as soon as we can, but the very nature of things because we are diversified, order booking happens almost in a continuous basis. So, I think to bring some method to the madness I think the best way to do it is to do this 2-month disclosures to the exchanges, to our investors and we will go ahead and do that.

Arvind Joshi: I would like to know what exactly are we currently doing and what exactly do we plan to do at a future date to get into more value-added parts of the solar opportunity we migrate to a better value proposition in the solar opportunity and also ensure that we do not get hit when the cycle turns?

Aditya Rao: So, solar business right now consists of the manufacture of module in the 400 to 500 what we range we are expanding that to get 600 peak we are at about a 100-megawatt capacity we intend to increase that manifold in the near future. We will take module mounting systems and AC and DC works. So, effectively the framework on which the modules sits we design it, we manufacture the parts and we execute it at site.

Arvind Joshi: So, all the mechanical rather than the electrical and electronic is our opportunity?

Aditya Rao: We do electrical as well.

Arvind Joshi: The controller and all will be done by us or we will be buying it out from somebody?

Aditya Rao: That is a bought out item controllers everything is bought out.

Arvind Joshi: And Aditya I had one more slightly long term question now since our growth is occurring in the newer areas where the margins are relatively much better and looking too much to be a little more better as the US market grows over the period of next two to three years do you see a PBT levels, touching, coming close to double digit any chances in the next two, three years?

Aditya Rao: I would not comment on an abject PBT percentage target though we have it sir. What I can commit is that we are focused on doing businesses which are double digit operating margins and the natural feeling for your PBT is your operating profit minus your fixed cost. So, as we increase scale our operating profits minus our fixed cost get to that point, but I can tell you that most businesses we are adding have a PBIDT of double digit so 10% and plus so that is our goal. On an overall basis I will not be able to project right now, but I can promise you consistent, sustainable, profitability which is value and percentage growth in PBT and it is easy for me to do it is at 2.5% I can commit to stand substantial growth on that, but double digit right now on PBT I will not be committing.

Moderator: Thank you. The next question is from the line of Dilip Sahu an Individual Investor. Please go ahead.

Dilip Sahu: My question got answered about solar business, but since I got an opportunity just on a lighter note Aditya I think last-to-last quarter you said that our best ever quarter is going to come this year, so is it still valid are we going to see best ever quarter this year?

Aditya Rao: I will commit to Q4 being better than Q3 by double digit percentages best ever quarter I think in my view what I had mentioned was that I mean you are right in the sense that operating wise the short answer is yes operating wise, but there was a land sale which was about 20 crores which we came in the last quarter, there was some tooling sales which have happened. So, operationally yes 100% we will see our best quarters very soon. Let me put it this way sir I think most important is sustained profitability and I think last conference call we have gone on record sink operationally operating PBT without this exceptional items next year will be adjustable that my team and I will commit to I we already committed in my view last quarter and we will double down and reiterate that, that we will do.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Aditya Rao: Thank you for all of you for your questions and support. As discussed we will be focused on growing profitability and ensuring that there is a capitalization. Thank you again so much for all of your questions.

Moderator: Thank you very much. On behalf of PhillipCapital (India) Private Limited we conclude today's conference. Thank all for joining you may now disconnect your lines.