"Pennar Industries Limited Q4 & FY22 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 Q4 and FY22 Earnings Conference Call of Pennar Industries Limited hosted by PhillipCapital (India) Private Limited. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 this conference is being recorded. I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital. Thank you and over to you sir.

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

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

Aditya Rao: Firstly, thank you to the moderators, to all our stakeholders I welcome them to out Quarter 4 and financial year 2022 financial results conference call. Thank you for joining us and I hope you and your families are all safe. A standard format for our conference call is the following: I will first address on the company's financial performance for the quarter and for the financial year. I will provide an analysis of our performance and what we expect in the coming quarters. As has been the case for the past few quarters my analysis will focus on profitability, liquidity, and growth. Post my address to you our CFOs, Mr. Shrikant Bhakkad and Mr. Krishna Prasad will present their analysis of the numbers, their commentary on our performance for the quarter and for the financial year. So, with that I'll get started.

For my initial comments for the financial year ending March 31st, 2022, we recorded consolidated net sales of 2,266 crores. For the fourth quarter of this financial year, we had recorded consolidated net sales of INR 692 crores, a consolidated PAT for the financial year was INR 42 crore and the consolidated PAT for the fourth quarter was INR 16.7 crores. We also generated a cash PAT on a consolidated basis of INR 96 crores and a cash PAT for the fourth quarter was 31.7 crores. This represents very high growth in our PAT for the financial year due to the previous year being a pandemic year. So, they may or may not be comparable. Furthermore, the fourth quarter last year had a special item namely the seal of our land asset. As I mentioned in my last conference call, if we are comparing quarter growth, we should take that into account. If we account for the land sale and other onetime items, we recorded growth in our PAT also on a quarter-on-quarter basis of about 20%.

Now on a sequential quarter basis which is Q3 of the financial year 2022 to Q4 of the financial year ending March 2022, we recorded PAT growth of about 56.1%. On my last call we had given the following guidance as management. We promised double digit growth in PBT from Q3 to Q4. We promised working capital days reduction from around 100 days to 90 days. We committed that we would commission a BIW project in Chennai and achieve a target PBT. I'm glad to report that we have achieved or exceeded all of these projections. For the next quarter we again expect PBT to have strong growth of at least double digits. That's quarter-on-quarter, Q1 last year to Q1 this year. We will further seek to improve our working capital usage from where it is right now which is around 80 days, correct me if I'm wrong Shrikant. So around 75 days over the next two quarters. On growth for the improved BIW plant’s capacity, revenue and profitability and the overall company's PBT percentage further. Our goal will be to achieve and maintain a ROCE of 20% for the financial year. Our growth vectors now currently are as I said the BIW capacity expansion, Ascent our subsidiary in the US Ascent, their capacity expansion, and our module plant capacity expansions. Once commissioned these projects will strongly contribute to our PBT growth for this financial year and for the next financial year.

In conclusion I must take the time to thank all of you for your support in the past few quarters. We've embarked on a new journey post the pandemic with a vision of evolving into a strong engineering company which through our manufacturing and engineering design solutions, we enable our customers to boost their productivity and their growth. We will continue to focus on sustainable revenue and profitability growth, liquidity, and capital efficiency as our guidelines as we implement our growth plans. Thank you and I handover the line to our CFOs for their analysis.

Shrikant Bhakkad: Thanks Aditya. Just to keep you through the key matrices that we review every year every time for ourselves. These are in terms of revenue, further it has gone from the last financial year FY21 to ‘22 from 1,525 to 2,265 crores which is 48% increase. In terms of PBT from 3.65 crores where it was 255.9 crores. Similarly in terms of EBITDA 131.49 to 148.49. In terms of cash PAT from 51 crores to 95.75 crores. These are the overall key matrices that we do in each of these numbers.

Taking you for the detail analysis on each of this number. The net sales as I said has increased by 48.5% but whereas if you come to the other income, other incomes are predominantly on account of depression that we have and the write-backs are appearing there. The raw material, the COGS which is generally called, so the raw material is at 61.86% in terms of the net sales and while compared to the earlier quarter it is 60.31. So overall 150 basis point, there was an increase in terms of the cost there. This is due to the increased revenue and certain margin related things such cost has gone up. We have back to normalcy and all the employees and costs of the things we've started paying off.

The finance cost is the next line item that you will see; the finance costs even though with the increase in the revenue from 1,525 crores to 2,265 crores, we were able to maintain the similar finance cost. This keeps up the point that we are able to improve our working capital in terms of number of days as well as in terms of the value wise. Depreciation, more or less it stays flat, the increase that you see is on account of the capitalization of the Ascent subsidiary in US. In terms of overall PBT there has been increased from 3.65% to 55.9%.

Just to take you through a couple of balance sheet numbers, though the detailed balance sheet is available at your end. I would like to glance on the certain aspects. If you see the net investments on the cash and cash equivalents that we have, we are at 120 crores we are sitting in terms of this amounts. Trade receivables again is one of the items wherein it has remained flat, even with the increase in the revenue the trade receivables have reduced which indicates that we were able to collect more the earlier amounts whatever were there and shows a better picture in terms of our accounts receivable. Inventories have increased for the revenue that we are doing or we'll be doing in the coming quarter. The revenue has slightly increased when compared to the earlier quarter. In terms of borrowings, we were able to reduce our term lending from 112 crores to 98 crores. Repayments of close to around 14 crores. Trade payables because of the increased confidence that we are able to give we are having now a better negotiate with our vendor. This is in terms of borrowings where we were at last were I had stopped. So, borrowings have decreased from 122 crores to 98 crores. There is a difference of 14 crores in terms of long-term borrowings. While if we compare to gross borrowings, they are at a flat level even with the increased revenue that we have. As we are able to negotiate better the trade payables have increased from 442 to 543 crores.

Just taking another few details for your detailed analysis. The cashflow from operating activities have increased for the current year March '22 is close to around 200 crores, PBT comprises of 56 crores, depreciation comprises of 54 crores. The working capital: operating changes in the working capital gets an additional 100 crores. This closed to around 200 crores have been deployed in terms of fixed deposits and mutual fund close to around 55 crores. The PPE, in investing activities 57 crores. But the amount has also been used in financing activities. The interest is close to 78 crores. There is a reduction in terms of term loan 16 crores.

So overall this quarter has been better from the earlier quarters in terms of top line and in terms of increasing our better working capital. A couple of points as Aditya said, one that you see on the CAPEX, the BIW capitalization will come in this quarter and this CAPEX would result in further growth of the company. With this I handover back to the moderator.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nilesh Shah from Arrow Investments.

Nilesh Shah: Just one point I want to I mean I have a couple of questions. The first thing I want to just highlight is in the audited results that you have shared yesterday on the exchange. There is a point #4 where you bought equity shares of 50. I mean the number I think there may be an error over there. 50 equity shares at Rs. 32 lakhs including transaction cost and tax on buyback. It's only 50 equity shares up to March 31st, can you please clarify on that.

Shrikant Bhakkad: These are the numbers that are one time stock exchange fees that we have paid to both the exchanges and close to the SEBI fees that we have to pay mandatory before the stock and some of the bankers who are arranging those fees are there. The cost of the investment is not that high. They are one-time cost which is appearing that's the reason, the amount is 32 lakhs included that.

Nilesh Shah: So, 32 lakhs include the transaction and SEBI fees on the buyback that you're going on which is currently on.

Shrikant Bhakkad: SEBI fees and exchanges. SEBI fees of around 20-22 lakhs and stock exchanges fees of approximately 5.9 lakh each.

Nilesh Shah: I understand. The second thing I had to clarify was the total borrowing of the company is around approximately 645 crores, is that correct? Total borrowing including your financial liabilities I think will be 645 crores?

Shrikant Bhakkad: After the schedule re-division the other liabilities are now included in short-term borrowing. The total short-term as well as the long-term put together is 587.

Nilesh Shah: And our interest payment to that is 78 crores?

Shrikant Bhakkad: 78.38 crores, correct.

Nilesh Shah: So, what is the rate? Because I was going through the last year's audited report and most of the rates are around 10%, 9% to 10%. Why are we actually having such a high interest outflow compared to the total borrowings?

Shrikant Bhakkad: To explain you this I think there the LCDs and the bill discounting that we do those costs also get added. It's not necessarily the short term and the long-term borrowing costs which gets replicated. And apart from this we give a bank guarantees also close to around 150 crores of bank guarantees also have been given and the vendor bill discounting that we do with each of these vendors. So those costs also get added.

Nilesh Shah: So, all those costs put together, but our average cost of finance is, the average rentals that we are paying?

Shrikant Bhakkad: 8.5%.

Nilesh Shah: If I have to look at 8.5 even on 580 crores or whatever this is little substantially very high, the finance cost. I mean I just wanted to clarify as to why it is above 15%, nearly 14% to 15% of our total borrowings. So maybe like you said the lease liabilities and the LCs and the discounting I think that is affecting the cost of finance. Is there any way we are going to bring this down in the coming quarter as our working capital gets more better and efficient?

Shrikant Bhakkad: If you would have seen even with the increased revenue that we had with from 1,500 to 2,265 we were not able to increase the finance cost.

Nilesh Shah: I didn't get you; you were not able to increase the finance cost, so it's not gone of you mean to say?

Shrikant Bhakkad: Yes, it has not gone up and from earlier it was 3.76% of our total net turnover, our plan is to reduce this to 3.3% in the short term and 3% is what we will watch this space. So, interest cost as a percentage sale will be around 3% to 3.5%.

Nilesh Shah: It will come to 3% to 3.5%.

Shrikant Bhakkad: Yes.

Nilesh Shah: Thank you for clarifying. One more question is on the net profit margin, in Quarter 4 it declined to only 2.4% from 5.9% quarter-on-quarter. I don't know why the reason is, in spite of an additional sales that we did comparatively, our net profit margin is only 2.4% for the quarter and for the overall year we are at only 1.8%. I mean it's just kind of very surprising to see that we're working at such low net profit margins. Can you give a little color and clarify on that? From 5.9 we have dropped to 2.4, corresponding quarter in March.

Shrikant Bhakkad: I will just give if you are comparing the sequential quarter with the sequential quarter, there was the one-time exceptional item of 19.96 crores which was sale of land. Apart from that we also have some tooling revenue which was there in March 2021. So, if you remove that one-time profit.

Nilesh Shah: One time profit of 19 crores from the sale of land.

Shrikant Bhakkad: Yes. That was there in the last quarter. If you compare with March ‘21 to March ‘22 if you take out those exceptional items in terms of the tooling revenue which is included as part of our normal income, post this renewal this number will better. It has actually increased.

Nilesh Shah: Our EBITDA is around 8.5% but our net margins are coming to less than 2% for the year. I think the management should little bit work on getting the net margins up. I don't know how to explain this but I think it's a very low margin compared to the overall turnover that we do. And in terms of cost also, I've just gone through it. There is one employee benefit expense which has gone up 208 crores from 136 crores year-on-year. I don't know why there has been a 50% jump in the manpower cost of the labor, employee benefit expenses. You can just, that'd be one of the last questions please.

Shrikant Bhakkad: Let me unpack what you're saying. First, you're saying that our PBT is low. I agree and we're working on increasing it and you will definitely see increases in the future. A lot of this has to do with a very high depreciation also for us. If you look at our cash profit it's PBDT for example, it's substantially higher. So, you will see this number go up. I agree with you that company of our size, the capital we are using we should have higher PBT percentages and we can commit as management, increasing them. As per your cost of the employee cost expense increases that is because of our increase in our employment in the US for Ascent. They started operations late in the financial year in this current financial year. Sorry FY22 late, they have started operations. They're doing very well. They're scaled up but we can't interrupt the pre-operative expenses. All of those have to be expensed out. That's why our employee cost is higher. We as the management can definitely commit to you that our PBT percentage, PBT value, our ROCE and quite frankly our employee cost to the percentage of our sales, all will remain, will improve, and remain within boundary within guidelines.

Nilesh Shah: Just one more last thing; that like you just mentioned that we have these Ascent Buildings which is now our subsidiary in the US which is doing well. There is an export duty which has come in the last week, 15% on steel which is good, so how are we going to mitigate the impact of this excess export duty? Will be able to pass these costs on to the customers there in the US.

Shrikant Bhakkad: In terms of we dispatching from here for the purpose of Ascent, there is nothing. Ascent manufacturer has a plant in US at Tennessee. They manufacture in US and they sell to the US customer.

Nilesh Shah: So, there is no 15% export duty impact to us, there is no impact of export duty of 15% on our sales to US?

Shrikant Bhakkad: Yes.

Nilesh Shah: Thank you so much for clarifying.

Moderator: The next question is from the line of Vikram Suryavanshi from PhillipCapital.

Vikram Suryavanshi: Can you give you some idea about how are the order situation in our different segments, particularly PEBS and other segments also and outlook on that individual segment? We have seen strong growth in projects also. We have led growth in projects and some comments on how is the revenue in engineering services? So, these were some questions.

Aditya Rao: Let me make sure I've understood all the questions. One is on order books for our business divisions. The second is you're asked for an outlook on engineering services.

Vikram Suryavanshi: Then our projects also what has led this strong within our projects also if you can do some idea about that?

Aditya Rao: Could you say that again your voice is not clear, I apologize but could you repeat that last part?

Vikram Suryavanshi: The project segment has also reported a strong growth this quarter.

Aditya Rao: I will be as clear as I can. I hope my voice is clear and my answers are clear.. For railways orderbook has stayed static at around 100 crores. Our orderbook for Ascent has increased dramatically to where right now we are sitting on close to $40 million in order book. Quite honestly, we can increase it to $50 million also. We are being very picky with the orders we are choosing. Our PEB orderbook in India is quite strong. It has increased to about 500 crores in the last quarter. And our order book for solar also is steady. Engineering services has done well, both our structural engineering and our automotive and plant engineering services verticals have scaled up well. The fourth quarter is much stronger than the third quarter and we expect this growth trend to continue. We are quite happy with the performance of these business verticals.

Vikram Suryavanshi: Projects business, within that how we're seeing the traction within different parts of the projects business?

Aditya Rao: The projects business versus what was the question?

Vikram Suryavanshi: The project businesses side, the growth is led by PEB or solar or enviro how is that

Aditya Rao: Our project business is Ascent and PEB primarily, also railways but it is right now dominated by Ascent and PEB from our revenue value size.

Moderator: The next question is from the line of Dilip Sahoo, an Individual Investor.

Dilip Sahoo: Congratulations Aditya for ticking pretty much all the boxes that we started 2 years back. My question is if I compare the gross margin, the margin of engineered products versus pre-engineered building project business, the margin of pre-engineered has come from 9.5% from Q4 last year to 6.5% this year. My understanding was that whereas for products it has come down from 9.5% to 8.5% this year over last year. My understanding was that the pre-designed engineering products margin will remain same or go up considering the extent contribution it hasn't happened. I can understand the raw material impact as well as the employee cost impact. But if you can give me some more light on how the trajectory of gross margin for pre-designed engineering building going to be from current 6.5% for next four to eight quarters? That's question number one. The question number two is about the news article that came up today of railways placing order of 7500 crores on Titagarh Wagon. Is it good news to us, bad news to us? Does it mean that we'll get a contribution from here? Are they our customers or is the railway pipeline opening up? This is the second question. The third question is about this Body in White, I understand we have complete orderbook for the capacity. If you can tell us because you are going to capitalize this year, this quarter. How is the ramp up going to happen over the next two-three quarters? Are we going to get to a full capacity by, how fast it will happen? These are three questions. The fourth one is about this acquisition in France that I read I think in your PPT, what is it? I think we had some discussions two quarters back but has anything fructified because you're given it in the presentation. These are the four questions.

Aditya Rao: I'll go one by one; the margin profile for our pre-engineered buildings division will continue to scale up. Post the pandemic we've taken our time to structure that businesses growth well. It has been while the fixed capital formation picked up. I think we've been a little circumspect on taking orders on that. That time has now passed. Our order books are strong and good and I can assure you that our EBITDA and our PBT for our custom designed building solutions business will continue to scale up for the next few quarters. Q1 will better than Q4. Obviously, the average of this year will be much better than average of last year. So that I can commit to.

Wagon orders for Pennar, we are expecting some to come in right now. Titagarh would be one of our customers. What we make are wagon assemblies and CRF sections. If we get orders from them then we can, but right now we are optimistic. But as of right now I have nothing to commit or say that this is our wagon order book for railways. We are still quoting on orders and hoping to get some good news on that.

BIW, as I'd mentioned and as Shrikant had given you some clarity, we expect about 100 crores in revenue in this financial year from that business. That will be at a high almost 7% PBT. That's the profile in terms of what we expect for this financial year. We'll increase capacity and then try to boost that further. But that as of right now we're currently at a run rate of about 9 crores. I don't believe we are over-committing. This month we should be doing around that much.

Cadnum which is in France is in the business of providing automotive and aerospace products, high precision. We will be acquiring them. Hopefully that acquisition will be completed in the next few weeks. We have submitted our agreement to the French courts. Everyone has agreed. We expect to start recording revenue of Cadnum in our financials from the next month. We have high hopes for that business. It would be perhaps not right for me to project revenue profitability from that business right now. What I can guide to is that we're in advanced stages of completing the acquisition and starting revenue, in Q1 of this financial year we'll start recording the revenue and it's a profitable entity, positive cashflow generating entity. Once we have done our homework, we will project our plans for that business. I think those were your four questions.

Dilip Sahoo: Thanks. If I may ask one last question, our employee cost since I think you are saying that we are now choosing the orders from **(Inaudible)** (27.37) which means that you must be getting into a steady state. Can I assume that this employee cost is going to be stable and even though the revenue goes up?

Aditya Rao: I can commit to it being stable with potentially some moderation also possible but I can commit to no large increases in this. I would not even say a 10% growth on that is on the card. Around that number is what you should expect.

Moderator: The next question is a follow-up from the line of Nilesh Shah from Arrow Investments.

Nilesh Shah: Just one clarification again on this Build 360 retail stores that we have opened up. We have opened around seven to eight over the last couple of years, are we in that mode to open more stores across India or the franchisee route or are we actually not giving that business so much importance?

Aditya Rao: No, we are not. I would be honest. That is one of the ventures we tried. We tried as managers, as entrepreneurs earlier we tried something. Sometimes they work out well. We are holding it static at eight stores and we have no plans now to expand that business. We don't believe it to be, we have not been able to achieve the success we thought we would have in Build 360.

Nilesh Shah: We are probably keeping it static and winding it down. That's what, I mean last conference call you had mentioned that you would like to come out of non-core businesses as well.

Aditya Rao: Yes, right now also there is not a lot of capital in that business but as you have said we will not be growing that business.

Nilesh Shah: Just again on the BIW, the Body in White thing. Can you give us a little color on the kind of customers we are working with?

Aditya Rao: Stellantis is our major customer. We're also trying to work with other auto majors. Since this I'm not sure they would be okay with me revealing their name. Stellantis I'm sure there's no issue but other auto major, auto OEM I can say.

Nilesh Shah: We don't directly deal with auto OES basically, like Mahindras or Tatas or Hyundai?

Aditya Rao: Stellantis is a $70 billion global, the old brands such as GE and Citroen and Peugeot and others and they're one of the largest automotive OEMs in the world, #3 or #4 to my knowledge.

Nilesh Shah: You had mentioned that looking at our order book of Rs. 100 crores for the year I mean doing business of Rs. 100 crores with the margin of around 7%, correct?

Aditya Rao: Revenues, not order booking but revenue. Orders are already decided. We have the orders into to do that.

Nilesh Shah: Last question is again on the land sale that we had last year. We monetized around Rs. 19 crores. Is there any plan for any additional land sale that we may have for this year or coming years that the company is looking to monetize?

Aditya Rao: Right now, I have nothing to share on that. That would be the right way to put things. I can say that the company has very substantial land assets. We sold 5 acres. I would say we are 100s of acres but I think at this point I can't comment on any plans. The board holds all discussions on this but right now we have nothing to communicate.

Nilesh Shah: On the buyback that is going on currently. I think there's a buyback that is in progress and the company has been aggressively buying the stock from the open market. Just wanted to check the reasons why the company went in for a buyback because we could have actually reduced our debt and liabilities by repaying this Rs. 40 crores towards reducing and profiting from our interest costs. I understand you're trying to enhance shareholder value but wouldn't it better to repay back some of the debt and try to mitigate our interest expense because interest rates are on the rise upwards and we are working with just hardly 2% margins. So, if there is a substantial rate hike, we would again have a negative impact on our balance sheet and profitability?

Aditya Rao: I think the decision to go for a buyback is predicated on a couple of things. First, you're right that 2% is our PAT margin but if you were to look at our cash PAT, you would find it to be different also and that is the amount of cash the company generates. More importantly our interest costs overall have not actually risen by a substantial amount. They may have in fact declined. They have actually declined a little bit and also our debt equity is not very high at 0.7 or 0.8. I don't see that as the at least that's our opinion, some of these can be subjective calls. I think what's important for us is to if we're doing a buyback at a forward EPS times P/E multiple. So, if the P/E multiple right now we are at, it is at 8. So, if we are doing a buyback at 7-8, I think that is a worthwhile use of capital as well provided we are not losing out on revenue on that. The opportunity cost of interest cost reductions would be less. That is my view. If you're compromising on the revenue or business which you can do then because our ROCE is much higher than our potential capital cost. That's one reason but all of these are judgment cost that we have to make. In our judgment since our EPS growth is on a steady track and I think you can hold me accountable for what I'm saying at least last four-five-six quarters since we've been since the pandemic time, we have revamped the way we do these things. I think you can hold me accountable for everything that's coming out of my mouth.

Nilesh Shah: Our ROCE is basically around 10% I think as of after updated yesterday's results which come to close to 10%, 9.97% exactly in fact the ROCE. There's a conscious effort to actually take it up to around 15% or 20%. That's what I mean we are trying to imply by this?

Aditya Rao: Our ROCE would be 15% and if you look at our fourth quarter and annualize that, then it's even higher than that. But anyway, let's we can discuss that. These are statements of fact, they can't be debated so we'll send our calculation, you can send us yours. I think a buyback is a good use of our money personally but the decision the board has looked at all angles and we believe that we should make sure the company is on a firm growth path. We should make sure we have liquidity, we should make sure that if there's an opportunity at a low P/E multiple, then reducing the equity of the company is a good option. That's the rationale.

Nilesh Shah: Just to add up to the follow-up question by another investor just prior. The company is in talks to acquire an engineering and precision-based company out of France, the Cadnum thing. What is the kind of CAPEX we are looking at for that?

Aditya Rao: It's very low. I think only about Rs. 2 crores is the cash outflow for we have right now.

Nilesh Shah: I don't know whether it will make a substantial impact on the kind of revenue and sales or profitability of the company, the acquisition?

Aditya Rao: Once the acquisition is done, we will give you detailed plans but if I can without numbers if I can give you an idea; the idea is we did exactly this in the US and we acquired a company then scaled it up. That is the rationale behind this. It opens up the Europe market for us. If we replicate everything, we're doing in India, in the US and in Europe, those markets there are massive and it'll allow us to substantially scale our revenue and profitability. But it would be premature of right now for us to say that Cadnum will allow us to do that. If you are saying look, it's too small right now, feel free to not pay that much attention to it. Once we have our plans in place, we'll come back to you and tell you exactly what we intend to do with that but it's a step.

Nilesh Shah: So, it was just in the overall scheme of things. When we do Rs. 2,000 crores turnover and acquisition of Rs. 2 crores, it doesn't make meaningful. I don't know right now maybe it may not but as you said going ahead it may make a meaningful difference to our top line and bottom line?

Aditya Rao: We started PGI 4 years ago. We have put barely any capital into it as well and this fiscal it will do about Rs. 70 to 80 million in revenue. These things are subjective, I suggest we give it the time it needs. Let it cook and everything will be.

Nilesh Shah: Fingers crossed Aditya; we are looking forward. Large Investors actually like SEI, Franklin, VSP and all; over the last 1 year have actually exited these businesses. I don't know why. SEI was an investor for more than 10 years and they acquired an investment in our company and obviously I think they were pained with that investment and they exited at a loss. I was just trying to figure out the logic as to why they would exit at Rs. 21 when they bottom at 42 and waited for 10 full years. So somewhere I think company needs to take this. This is just a suggestion. The company needs to take a conscious effort to get in quality investors on board and kind of have more of investor interaction so that investors are more comfortable with their investments in the company. Because all the big, larger players have actually exited our company as an investment and we need to get some quality investors back in the business.

Aditya Rao: Your point taken. I don't have an argument with anything you said. Everything you said is a statement of fact. We'll work to the I think best way I can, my investor and we as a management of the company can serve our investors is to keep improving in terms of profitability, liquidity, capital efficiency and the results will come. As to SEI, I have a lot of respect for them, they're a great fund. As to the specific reasons for leaving, I can't speak to that I mean they have their own way of making decisions.

Moderator: The next question is a follow-up from the line of Dilip Sahoo, an individual investor.

Dilip Sahoo: One is regarding the investment for next 3 years. If there is any further investment required in Ascent as well as the railway CAPEX, we did I think around 1.5 year to 2-3 years back. Is it complete or is it ongoing? If you can tell us, that's one?

Aditya Rao: We have currently not finalized our CAPEX plans for the year. So, at this point we will be unable to communicate what our CAPEX outlay for the year is but we don't intend to increase our debt profile or anything. Whatever we will eat what we kill. What cap, what free cashflow we generate, we'll use that.

Dilip Sahoo: That leads to the second question that if you are having Rs. 100 crores odd of cash profit and I'm sure it will go up, if the margins go up, now you will have Rs. 400-500 crores of our cash in next 3 years. What is the direction? Is it debt reduction or is it buybacks or is it dividends? So that's question number one. The second question was regarding the services business. If I remember when we acquired the company, I think online or something the revenue was around Rs. 2.5-3 crores, we are doing I think Rs. 5 crores now after 3-3.5 years. I understand that there has been some realignment but is this going to be a substantial portion of our total revenue? What is the plan for it?

Aditya Rao: I just wanted to understand your specific? Are you talking about our BIM, building information, modeling, acquisition which we had made and revenue from that? Is that what you're asking?

Dilip Sahoo: Your source of Rs. 5 crores of revenue and in the PPT which is very small compared to Rs. 2,500 kind of revenue. My question is, is the services business is going to be a mover for our revenues and bottom line?

Aditya Rao: In my view I see the future of Pennar as being precision engineering and precision design as well. Our entire design engineering work that we do right now would on a per year basis reach about a structural engineering to about Rs. 50 crores and the PBDT on that would be about 20%, the PBT there's not depreciation really on those things. I believe that this is a business we should scale up. I believe this is a business we should do better in. It ties in well with what do we engineer, we engineer BIW automotive components which lines into a BIW manufacturing. We engineer buildings which gets into our pre-engineered buildings range as well, we engineer plant engineering and other systems as well which we don't have a manufacturing component for that but these are good industries to be in and they're large market sizes and we can consistently over time grow these businesses. I'm quite happy with the progress we're making. I'm quite sure that if this year we added Rs. 50 crores run rate; it will start contributing quite significantly to our bottom line. There's a reason I say that I'm aggressive about our PBT, there is a reason I'm saying that next year we'll have our highest ever PBT. I had committed that in the last conference, you come for conference calls. On everything we will make progress. Tell us where the issues are, we will focus on them but largely the story I want to tell you is engineering services, precision manufacturing, high margin businesses, higher PBT, good ROCE is there are targets and we'll get closer and closer to them. That's our intent.

Dilip Sahoo: That's absolutely clear. My question was about the growth Aditya. Rs. 30 crores to Rs. 50 crores in 4 years-3 years is, is there some focus in terms of leadership team and sales or is it riding on the existing sales team of our project business?

Aditya Rao: I am sorry. I understood your question differently. You're asking about the growth rate for that vertical?

Dilip Sahoo: Correct.

Aditya Rao: It will be quite high. I would project double-digit growth rates for that vertical in this financial year compared to the last. FY23 versus FY22 double-digit growth.

Dilip Sahoo: In the capital allocation considering that we don't have any major investment plan?

Aditya Rao: I think I just said we have plans to increase our BIW capacity, our module capacity and also Ascent will go into Phase 2 which is their growth plan. But we will do this with the limits that we have, we are not going to allow a massive increase in our debt or anything like that, is what I'm trying to say.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Aditya Rao: Thank you. Thank you for the questions. We have taken note of everything that you have said on the factors you want us to improve on and we will make sure that we make consistent progress on that. My takeaways for the call are to keep monitoring the PBT percentage, make sure that the increase is going to happen, improve our cash generation further and also give more clarity on some of the bets we are making in terms of our Cadnum acquisition and others. But thank you for the questions and thank you for your feedback.

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.