



“Pennar Industries Limited Q3 FY2018  
Results Conference Call”

February 14, 2018

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**Moderator:** Ladies and gentlemen good day and welcome to the Q3 FY2018 Results Conference Call of Pennar Industries Limited, hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of the today's presentation. Should you need assistance during the conference call please signal for an operator by pressing "\*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nikhar Jain of Emkay Global. Thank you and over to Ma'am!

**Nikhar Jain:** Good morning everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Manoj Cherukuri, Head of Corporate Planning, Mr. Krishna Prasad, Chief Financial Officer and Ms. Jill Deviprasad, Investor Relations. I would now hand over the call to the gentlemen for their opening remarks. Over to you Sir!

**Krishna Prasad:** Good morning to you all. This is Krishna Prasad, CFO of Pennar Industries. The quarter ending FY18 we have recorded on standalone Rs.300 Crores of net revenue compared to Rs.245 Crores of the corresponding year last time, which is around some 23% is the total increase and EBITDA margin also increased by 46% when compared to the same quarter of last year and in consolidation we have recorded around Rs.417 Crores of net turnover compared to Rs.395 Crores, which is 5% growth and EBITDA margin has increased compared to the corresponding quarter of last year around 13% and in nine-month standalone we have done around Rs.890 Crores of turnover compared to Rs.710 Crores of turnover . As far as segment performance is concerned still we have done Rs.164 Crores compared to Rs.137 Crores of last year same quarter and the tubes has increased from Rs.38 Crores to Rs.50 Crores and railways we have improved from Rs.47 Crores of last year same quarter to Rs.55 Crores of this year and industrial components from Rs.15 Crores to Rs.19 Crores this year.

Steel BU has increased its turnover on year-on-year basis 19% and tube has reported consistent increase in their turnover and it is reporting around 32% growth compared to the same quarter of last year and railways has increased by 17% and industrial components by 20%. The total gross sales of nine months of current year is around 1470 compared to the same of last period around 1177 and we are in right path of growth as far as turnovers are concerned and our net profit is Rs.34.4 Crores compared to Rs.27.3 Crores of last year same quarter. Velchal plant is in a full operation and the results have started flowing and most probably in the next quarter we will be having a full-fledged operational efficiency reflected



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in our turnovers and margins and we had the capex plan for this year, which we are concentrating in railways and tubes and components majorly and in particular pocket of steel BU the solar segment, so all these most probably will be completed by Q2 of next year and from H2 of next year entire results will start flowing, which will anyhow consolidate the position of standalone company and we are in the process of merger and related whatever the government agency's approval just like BSE stock exchanges and SEBI and filing with NCLT everything is in progress and it is going as per the timeline quarter we preferred to be and it will be concluded most probably that exact dates and all that will come back once the step by step operations are completed. Anyhow I will hand over to the operator to have any questions.

**Moderator:** Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of S Mehrotra an Individual Investor. Please go ahead.

**S Mehrotra:** Could you give us the business line wise order book that you have today you mentioned Rs.90 Crores for the railway division, could you also give us the similar update for the tubes division, the steel products division and the industry products division?

**Krishna Prasad:** Order book for us is something different from when you are going to compare with the infrastructure segment and all, they will be having order books, which is going to be something sizeable sometimes it may go into actual income, but our order book is something related to the cycle of our production. Our production size is something like even 7 to 15 days, so this is more or less and all other segments except for solar and railways, all other segments are having the flow of orders as delivery schedule, it will be not having the order book as such. So that significance is not much related to my performance. In those two phases of solar and railways we are having order lookup in solar, we are having roughly around 5 to 6 months of order book and in railways we are having around 9 to 11 months of order book.

**S Mehrotra:** At the AGM you had guided for 30% growth and there were some expansion plans that you mentioned about the revenue plant at Velchal and also an expansion in tubes division, could you give us an update on expansion that the moving on track and you still standby your guidance of 30% topline growth?

**Krishna Prasad:** We are having expansion plans which corporate plan of last year we completed and that has started in Q3, the completion has done in the middle of Q3 and they result figures there or



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anyhow evidence from our performance in the topline growth, so we are in line with whatever the capex plans and whatever our projections are there and we had implementing another capex plan for this year, which we want to complete by H1 of next year and it will be continuation to our growth plan and it will take the company to further height.

**S Mehrotra:** For the next year you would be guiding topline growth of 30% that is very much on track?

**Krishna Prasad:** It is high double-digit growth anyhow and as far as exact percentage is concerned right, it will be somewhat very difficult to pronounce, but definitely we will be in right path and we will be doing the double digit growth.

**S Mehrotra:** Thank you Sir. One last question is on the merger between PEBL and Pennar Industry as I understand PEBL is not doing too well right now the merger ratio is unfavourable to the Pennar industries so what is the thought process behind this merger and how will it benefit Pennar industries?

**Krishna Prasad:** In standalone company and also in our holding companies also in subsidiaries we are having mix of our products, so overall company if you want to say it is going to be driven by the total environment whatever wherever we are in, so in fact the overall performance may be slightly good or slightly less, but when we compare the individual helmets that is mix of whatever products we are doing in mix we did not miss the contribution levels or performance, but most probably that has already talked in their conference call so in the mix of whatever is there just like your structural segment or pre-engineering segment, the margins are okay, but the mix of that segment compared to in the turnover because of that overall performance is slightly red in nature, but they are also doing satisfactorily well in that particular product line.

**S Mehrotra:** No my question was on the merger ratio it is unfavorable to Pennar Industries?

**Krishna Prasad:** I do not think it is going to be unfavourable, but the thing is it is going to give the company and whoever may be the stakeholders as they on a whole everybody is going to be get benefited and it is decision taken in favour and that is the decision taken by the independent Directors of the Board to benefit all the stakeholders and it is going to increase the strength and ultimately it is going to be beneficial to the shareholders. Everything will flow to stakeholders with whatever the share price and all that benefit.



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**S Mehrotra:** One last question Sir where do you see your growth mainly coming on and we move from legacy business where the margins are lower now, the idea we were told when I was there in the AGM was like all moving towards business is where your EBITDA is greater than 10 and your return on capital employed is greater than 20, so at that point of time in the process of identifying new lines of business and there was also talk of some purchase of some land say 100 kilometers from Hyderabad to take care of this expansion, so have you identified those new lines of business and where you see the future growth of the company coming from?

**Krishna Prasad:** The company is established precisely when long back it is on CFC and from there onwards we are moving only in value addition chain so whatever we are adding whichever may be the business either in steel business or tubes or whichever segment you mean to say all our investments are going into only forward integration at high value margin additions only and also whatever you mentioned that land acquisition and all it is in line with whatever the requirements, whatever the projections we had for our turnover growth and we are in right path and whatever we are planning for further expansion capex plan it is at a double digit contribution level and ROCE of around 20%-25% without that we are not moving ahead.

**S Mehrotra:** Thank you.

**Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

**Ashwini Agarwal:** The question that I had was when I look at the Pennar Industries presentation this time we have not broken out division wise EBIT numbers for steel products, tubes, railways, industrial components could you share those please?

**Krishna Prasad:** We will be able to share you once if you come offline and we can able to share you.

**Ashwini Agarwal:** What was the solar revenue in the standalone company?

**Krishna Prasad:** Solar revenue this year we will be touching around Rs.320 Crores above.

**Ashwini Agarwal:** In the standalone company this does not take into account what you have in PEBS?

**Krishna Prasad:** No.



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**Ashwini Agarwal:** How were the margins behaving in solar given the kind of pricing pressure that we are seeing in solar projects?

**Krishna Prasad:** As of now we able to sustain with whatever the margins we are at and we have forward for the last several months, but there is some slight pressure in margins, but as of now we able to get the margins levels at double digit.

**Ashwini Agarwal:** Because this is a very large piece of your standalone revenues, so if there is any significant pressure here it could?

**Krishna Prasad:** That is why we want to derisk with this one and individual components of any BU we want to, that is why we have gone for Velchal plant and other expansions in railways and tubes and also in components to see whenever it is possible to take advantage yes we will be taking advantage because of the business situation and if it is on the negative side we should be protecting the turnover with right approach for the expansion plan. Most probably it will be protected, which or whatever our capex plans for this year and next year, which is going to take.

**Ashwini Agarwal:** One more question I had is that in your opening remarks just before the phone call got disconnected you mentioned that at the consolidated level your EBITDA margins increased, but in your presentation on slide 5 you show them as declining, so did I miss something there?

**Krishna Prasad:** Cash profit has increased by 13%, EBITDA margins there is some 20-basis points reduction.

**Ashwini Agarwal:** EBITDA was largely flattened I am assuming all of that?

**Krishna Prasad:** No it is more or less there.

**Ashwini Agarwal:** Year-on-year EBITDA is largely flat correct?

**Krishna Prasad:** On consolidation.

**Ashwini Agarwal:** That is mostly because of the decline in PEBS?

**Krishna Prasad:** Slightly it is yes connected to that.



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- Ashwini Agarwal:** Last question from my side is Enviro what was the revenue in the last quarter and year-to-date nine months?
- Krishna Prasad:** For the quarter it is around Rs.27 Crores and up to nine months it is around Rs.73 Crores.
- Ashwini Agarwal:** Rs.73 Crores and this is now profitable at EBIT level?
- Krishna Prasad:** Yes it is at EBITDA level we have profit.
- Ashwini Agarwal:** PAT would be nominal number with not much contribution is that a fair statement?
- Krishna Prasad:** Based on the particular business yes, it is doing very well, but the numbers are very small that is why absolute number may look like very smaller, but in their own capacity they are doing very well.
- Ashwini Agarwal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Atul Kumar, an Individual Investor. Please go ahead.
- Atul Kumar:** My question is regarding your plant manufacturing decision, are the plant ready for the ambitious project of bullet train, is the part can be manufactured or some more investment would be required to meet the plant ready for these kinds of projects?
- Krishna Prasad:** We are in touch with the concerned authorities and as of now because that bullet train manufacturing that particular concept it takes at least for us it looks it takes another one or two years, but in the meantime we are concentrating on integral coach factory, modern coach factory and also RCF and wagon section also we are improving a lot and anyhow we are in talk with the BEML for the metro coaches. Right way yes we are putting up our capex to see that whatever the future anticipation is there it is being met.
- Atul Kumar:** The Company will be in part of manufacturing correct?
- Krishna Prasad:** Yes.
- Atul Kumar:** Thank you.



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**Moderator:** Thank you. The next question is from the line of S Mehrotra, an Individual Investor. Please go ahead.

**S Mehrotra:** Just wanted to check on the sale of the solar division to Greenko have you received the money for that Rs.100 Crores that was supposed to come in?

**Krishna Prasad:** We are in the process and most probably entire transaction will be closed in another 10 to 15 days.

**S Mehrotra:** Thank you.

**Moderator:** Thank you. The next question is a followup from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

**Ashwini Agarwal:** Sir one quick question on capex in this financial year what will be the total capex and what is your plan for the next financial year March 2019?

**Krishna Prasad:** In the financial year we will be putting around some Rs.60 Crores to Rs.70 Crores of capex, which will be anyhow completed by which I have already pronounced maybe in the first half of next financial year and based on this the capex for next year will be decided most probably by end of March so in next quarter we will be anyhow tell you exactly what is the position of that or our position and where exactly we are pushing for the next year capex.

**Ashwini Agarwal:** So this Rs.60 Crores to Rs.70 Crores you are saying will complete only by the middle of this year?

**Krishna Prasad:** If you say for example if it is putting up a tube mill it takes nothing less than 9 to 12 months, but if it is putting facilities for railways it will be completed within three months, so it is at a phased manner, so entire capex plan completion may be next year, but it will be completed segment wise and in a stages manner. So result will start once that particular stage's completion is done.

**Ashwini Agarwal:** From a capitalization prospective how much will get capitalized in March 2018 out of Rs.60 to Rs.70 Crores?

**Krishna Prasad:** As of now I am not having exact position, it looks around at least 30% to 40% on an average.





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- Ashwini Agarwal:** Thank you so much.
- Moderator:** Thank you. As there are no further questions from participants I now hand over the floor back to the management for their closing comments. Over to you Sir!
- Krishna Prasad:** Thank you very much for listening to us and giving this opportunity.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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(This document has been edited for readability)

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