"Pennar Industries Limited Q1 FY22 Earnings Conference Call"

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MANAGEMENT: MR. ADITYA RAO – VICE CHAIRMAN AND MANAGING DIRECTOR, PENNAR INDUSTRIES LIMITED
MR. SHRIKANT BAKKAD – 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 1Q FY 2022 Earnings Conference Call of Pennar Industries Limited, 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 now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Vikram Suryavanshi: Thank you, Rutuja. Good morning, and a very warm welcome to everyone. Thank you for being on the call of Pennar Industries Limited. We are really happy to have with us management of Pennar Industries here today for questions-and-answer session with investment community.

The management is represented by Mr. Aditya Rao – Vice Chairman and Managing Director, Shrikant Bhakkad – Vice President, Finance; Mr. J. Krishna Prasad – Chief Financial Officer; and Mr. Manoj – Head Corporate Affairs; and Mr. K.M. Sunil.

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

Aditya Rao: Thank you, Vikram. Good morning and very warm welcome to all of our stakeholders. I hope you and all of your families are safe and well. And my thanks to all of you for attending the Q1 FY 2022 financial results conference call for Pennar Industries.

The structure of the conference call will be the following. I will first provide an overview and my comments and the company's performance on Q1. Our CFOs will then provide further details and cover major financial metrics. Post this initial summary, we will then take calls from our stakeholders and answer their questions.

Pennar Industries had consolidated net sales of INR 488.31 crores for the first quarter FY 2022. The consolidated PBT in Q1 was INR 9.04 crores and the cash PAT, which is defined as our PAT plus the depreciation, was an INR 19.10 crores. Our annualized ROCE for the quarter was 15.29%.

I will now speak on the three aspects we continually cover on our conference calls; profitability, liquidity and growth. Q1 saw us achieve the PBT and capitalization targets that we had set for ourselves. We were at INR 3 crores per month as an average PBT, and that PBT number has substantially improved in Q2. We have a financial year PBT target that is substantially in excess of our current PBT and we are well on track to achieve these numbers. Currently, we do not anticipate any margin pressures or declines in our PBT over the next few quarters. Consequently, we are very confident that Q2 PBT will be substantially stronger than Q1 PBT.

Moving on to liquidity, we continue to target 75 days in terms of our cash to cash cycle or working capital cycle for the company. Currently we are at around 100 days. Now, we had promised substantial progress on this from last time, and we have had progress in reduction of our current assets as a percentage of our revenue. However, because our accounts payable number also went down, the working capital did not move that much. That being said, we are quite confident that we will reach the 75 days target over the course of this year. And the excess working capital we are using will be liquidated, again, as I said over the course of the financial year itself. And we will continue to make quarter-on-quarter improvements.

Moving to growth. Our ERW plant in Chennai has started commercial operations in late Q2 and we will become PBT positive and Q3. We believe this vertical is scalable and it's an important growth vector for our PBT going forward. Our metal buildings plant in Tennessee in the U.S. has built a very strong order book and will become a very good contributor to PBT in late Q2 and Q3. Also, our CDW tube sales in the U.S. which are carried out by our U.S. subsidiary are also scaling well, and that business unit has already achieved positive PBT, in fact ahead of schedule. For each revenue vertical that we have, we have drafted a growth plan. We have identified key long term opportunities and we are confident that we will deliver consistent and sustainable PBT growth over the next few quarters.

In conclusion, we are focusing a lot on our medium and long term growth drivers. Over the medium and long term, our focus will continue to be on these three metrics; sustainable profitability, appropriate use of working capital and ensuring that there's adequate liquidity; and lastly ensuring that we have a sustainable growth plan for all of our businesses. We are confident we will have a very strong financial year 2022 and deliver growth quarter-on-quarter in this financial year.

On that note, I will hand the call over to our financial controllers, Mr. Shrikant Bhakkad and Mr. Krishna Prasad for their brief on our quarter one performance.

Shrikant Bhakkad: Good morning, sir. I will take you through the financial numbers for the current quarter. Current quarter, we have seen a net sales of Rs. 488.31 crores. In terms of EBITDA, we are at Rs. 40.09 crores, which is 8.21% in terms of total percentage of net sales. PBT has been healthy at Rs. 9.04 crores and the PBT to net sales around 1.85%. While compared to Q1 of last year, there's been a substantial improvement over the last quarter. Comparing with the Q4 numbers, the gross profit margins continue to remain stable at 38%. In terms of EBITDA, we are at 8.21%.

Just to take you through the further numbers, we had the cash profit of Rs. 19.1 crores, which last quarter was exceptionally high because of one-time profit on sale of the land and profit on sale of ERW tools which we had last times. Our current net working cap is at Rs. 677 crores while compared to Rs. 669 crores in terms of March. Overall, Debtors of 112 days in terms of the same.

In terms of account receivables, we have reduced from 106 days to 84 days. In terms of inventory, we have reduced from 193 days to 173 days. Overall accounts payable also has declined significantly from 176 to 146 days. Our total long term borrowings and the short term borrowings continue to remain steady and there has been not increase in the substantial in terms of the overall borrowings, we are at Rs. 591 crores as opposed to Rs. 584 crores as at March 31. We have the ROCE at 15.29% and ROE at 6.14%.

So with this, if you have any further questions, we can take you through the numbers.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Sir, how we are looking at the impact of the steel prices and inventory levels basically? And if you can highlight on particularly inventory side in terms of volume as well as the price impact?

Aditya Rao: Thank you. So steel prices have been on an upward trend for a long time, there was actually a lot of volatility in the prior two quarters. That volatility has now evolved into more of a steady increase. For example, in this quarter, we expect Rs. 1,000 per ton increase, it could be Rs. 1,500 per ton. So our focus is to ensure that there's not that much volatility. Whatever the steel prices, we ensure we manage, that the prices we give and the payment terms we give to our customers are at a certain percentage, ROCE are at a certain percentage contribution. So, I wouldn't go so far as to say we are immune to steel prices, but what we don't like is volatility, sudden rises and sudden falls represent challenges. I think the sudden and massive rises and falls is behind us, so as long as these prices sustain moderately increase, moderately decrease, which seems to be what is on the table, what is on the cards right now, we are okay. Our inventory levels are at similar levels, I think we could decrease this to become leaner to have more effective working capital utilization. So as with all problems, we have broken it into pieces for each business unit, assigned inventory to them, the BU heads and our CEOs are all ensuring that they are both capital efficient and also retain enough inventory to sustain revenue, prevent any revenue shocks. So, we are quite comfortable with our positioning right now from a steel price point of view and our inventory holding.

Vikram Suryavanshi: And this ERW plant which we have started in Chennai, how is the scalability of that business and how are we structurally looking at that this can be sizable business, or if you can give some highlight in terms of opportunities and scalability of that business, can we replicate in other location kind of?

Aditya Rao: So, I think we have made a beginning in that business unit. Our current customers in that business unit are Stellantis, one of the top four auto companies globally. The vast entirety of our production is export oriented for that plant. Growth verticals exist, growth capacities exist in that, we are adding Hyundai very soon as a customer as well. So, I think building up the order book which is already full for the next two years, increasing capacity steadily will be the course he will take. But yes, the addressable markets are very, very huge in that business. So, we can continue to scale that vertical. And the reason we set it up is to ensure that we can create a high growth and also high ROCE, high margin vertical for ourselves in the automotive space. So, yes, we see good things ahead. But I think let us commission the plant, let us start scaling up let, we expect our profitability for that business unit in the next quarter itself. And I think once we have done that, we will present a long term growth plan for that business. But right now, all systems are looking green, everything's looking good and we are quite optimistic.

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

B. Surendra: My question is on the investor presentation, this presentation contains 12 pages, out of which 8 pages are the copy of the last quarter. In this presentation company has tried to hide out information instead of providing the information, it seems like that. Sir, why this is so? Over the period, last two years if we have seen presentation, over the period this presentation quality is deteriorating, there is no improvement. Number two, where you are giving two business verticals, why you are not providing unit wise information on orders, provide that to us, if you want to hide out the information, do it this way? Sir, I am a shareholder of this company last 25 to 30 years and I am following this company last 30 years and I find this information providing, whatever information you are giving, there is a deterioration. When the Chairman was there, the information was very good, over a period now this information is like a fishy information, fooling the investors, I am straightaway talking to you.

Aditya Rao: Okay, sir. Sir, what I request is that if you can address specific concerns about what information you would want, we will try to incorporate that.

B. Surendra: No, no, information we want where the units are there, like the tubes or water, solar, that information was shared, you should provide it like this way. You are providing one type of information, custom data showing in one way and otherwise, does not give any information to other investors.

Aditya Rao: You would like to know the locations of our plants?

B. Surendra: No, we have a location of plants. We want the information of sales of tubes, then this solar or what other information is there of components, or other whatever new leases that you have incorporated, what is their sales, what is your performance, what is your orders, but this is not happening.

Aditya Rao: You would want to vertical-wise breakup?

B. Surendra: Yes, in the presentation itself.

Aditya Rao: Okay. We have a certain revenue attribution we follow. We have many revenue verticals.

B. Surendra: No, no, I understand you have 25, 60, 100 verticals, I understand. But those verticals are contributing more than 10% of the revenue, shouldn't you provide the information, rest you keep it for other verticals.

Aditya Rao: Yes. So what we will do, Surendra ji, your point is understood, I will review it internally with our governance team, with SEBI regulations as well.

B. Surendra: Sir, where SEBI regulations are coming in this, I don't understand, sir.

Aditya Rao: What I am saying is that, you have made a request, we have understood the request. We will review it and we will get back.

B. Surendra: Okay. Sir, once more question is on our credit rating report, is there any credit rating report we have?

Aditya Rao: Yes, sir.

B. Surendra: Can you upload in the system?

Aditya Rao: It is there on the webpage of the CARE rating, sir, and it can be publicly viewed also. If you just typed in the Google, Pennar credit rating, you would get the report. It is publicly available report and the CARE rating declares its report, which is available for everyone to view.

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

Dilip Sahu: So before I ask my questions, just to echo the sentiment of the earlier, who was asking questions. I really feel that while the intention is to give a lot of data, the comprehensibility of the data can definitely improve, considering the fact that we are a reasonably complex company, considering the size of the business. So yes, what exactly we would like to see in the presentation is, what are the key business contributors, what has been their performance on the quarter and what is the trend. Plus, the initiatives you are taking for the key pivotal strategy points, I think those things are I think missing, or maybe the earlier investor was not able to see the presentation. And then there's a lot of repetition of the slides for people like me who are investor for long, I just see the same slide, it doesn't make sense. You know, I can just go to the website and get past things. So that's about just to kind of chip into my bit regarding the earlier question.

Aditya Rao: Allow me to respond to that, sir. I think what you are saying is, that the presentation can be made simpler, more investor friendly? You would want the presentation to incorporate, you said key business contributors.

Dilip Sahu: yes, three, four verticals where the business, like the guy was saying, 10% or more, what has been their performance, and what is the trend, basically what is that we are seeing going to be a future outlook; plus two, three key parameters, and you have already covered the parameters, financials, growth and in terms of liquidity, those three, four parameters, that's all we want to know.

Aditya Rao: I think that's a very fair ask. What I suggest is, the goal is here is communication and clarity to our investors. I think yourself and the speaker before you, Surendra ji, have articulated an issue with the way the presentation is structured. If you can tell us the format that you would want, we will do an internal check, we will look at take a look at what are the compliance standards which are applicable here. Reporting standards are different from what they were five, six years ago, I just want to make sure that everything that we present to you is information that we can consistently give you, that it is something that is obviously compliant. We can't give any presentation also that is also something that is important**.** If you can give us the format that you would want, the communication you would want from us, we will review it entirely and I will commit to you that whatever public domain information format that you would want presented, I will ensure thatthat is presented to you. But the key metrics here are public domain that has to be available publicly and it has to be something that we can consistently provide to you quarter-on-quarter, that's the only metric here. But your point is well taken, give us this call for us to digest what you want, you have our email address, you have our investor communication details, please tell us the details you would want, if you can tell us a format you would want as well, I assure you, we will come back to you.

Dilip Sahu: Perfect, I will send it to IR department. My question, Aditya, is broadly two, one is the U.S. business. I understand from the last communication to the exchanges that the U.S. business order book has been extremely good, like to get some color in terms of how is the order book looking like into looking at maybe this calendar year, are we going to get a Rs. 50 crores kind of run rate by end of this year or whatever the run rate that you think we will be. So, that is one.

The second question is regarding the net debt, it has gone up to Rs. 500 odd crores as per presentation. So, just wanted to know, our objective has been to reduce the finance cost to 3.5% or lesser of the revenue. So, if you can tell me what is the reason for this increase in net debt to Rs. 503 crores?

And the third question is regarding the gross margin. We have been told that the pass on of any increase in raw material is pretty much weekly. So, what is the reason for the drop in the gross margin? Is it because of the lag effect? And at what level it's going to stabilize? That's all.

Aditya Rao: Let me break up the question, sir. The first question was on the U.S. business, the traction we are seeing and what we expect. The next question was regarding our net debt and the corresponding interest cost as a percentage of gross sales, and how we see that evolving. And your third question was on gross margin. So we will take this up one by one.

Our U.S. business is now comprised of our metal building sales there, which is carried out by Ascent. Our CDW tube sales there which is carried out by PGM, and our hydraulic engineering services sales. All four of these verticals are very well poised for growth, they have all grown over the last couple of quarters as well, and we expect further growth in this business. The order book that you speak of pertains to Ascent, and it is gotten stronger since the last time the press note that we had sent out. The plant has just started operations, and we are very confident that all of these initiatives start contributing towards PBT very, very quickly. So, I am hesitant to provide the numbers to you per se, but when you said Rs. 50 crores, did you mean Rs. 50 in terms of…

Dilip Sahu: Particularly the Ascent business is only I think six months old, so are we going to see something around say Rs. 50 crores per month run rate going by the end of this calendar?

Aditya Rao: No, it would not be Rs. 50 crores per month for Ascent, sir. I think in this calendar year, the broad indicative number you should look at is closer to about Rs. 15 crores to Rs. 20 crores per month, that is the number that you will see for Ascent alone. However, PGM, our CDW tube sales in the U.S., that itself will exceed another Rs. 7 crores, so you can add that to that. And our existing hydraulics and engineering services, which will also grow, will be close to another Rs. 7 crores. So, overall, you can expect something approaching Rs. 30 crores per month plus in that business vertical over the next few quarters. And we will definitely achieve that in this financial year on a monthly run rate basis.

Dilip Sahu: And I will assume all of them will be around 17% to 18% kind of EBITDA margin, right, that's what the typical pricing is around?

Aditya Rao: Let me put it this way, overall for the blended, because they have a very different blend of thing, but overall that revenue number that I have mentioned, you can assume a PBDT which is after interest cost, PBDT, not EBITDA so much but after interest cost is also removed of around 12% is what we can assume, about that itself.

Dilip Sahu: Thank you, that I got it. Understood.

Aditya Rao: Now let's move to net debt, we have a net debt of Rs. 584 crores, and that is a high number. Our interest cost as a percentage of sales was 3.35% of gross, we intend to bring that down to 3%. Our debt, which is mostly short term non-cash debt, LCs and others is a feature of our business. This is something that will increase as our revenue increases. What's important is, as you said, the interest cost as a percentage of sales be controllable, so we are tapping a number less than where we are right now. We are not efficient right now, we need to improve our efficiency a little bit more. But what you will see is, this number being around 3%. And if it's around 3%, it is appropriate, in our view it is an appropriate use of capital, because it's mostly non-cash, it includes bank charges, includes a lot of other finance costs which are classified as interest, but effectively they are finance charges. So, the 3% number is what you can take with you, and that we will ensure is achieved, and probably, if possible, we need to optimize that as well.

The underlying story on this is, if you look at the last two quarters, quarter-on-quarter from the pandemic, our revenue has improved, our PBT has continued to improve. Q4 was a very good quarter, Q1, I would define it as, I mean, Q1 is always less than Q4, but from a pre-pandemic to now comparison we are very well pleased right now to both scale revenue and to scale profitability. I do believe that this year will be a very good year for us from a profit point of view. So with that backdrop in mind, I think net debt, since it is mostly the vast majority, 80% of it plus is non-cash, I mean short term debt, it should be seen as a viewpoint, it should be seen in relation to what the overall revenue number is doing, or the overall interest cost as a percentage of sales is doing. So on both of those, we will commit to you that there are going to be controls. And most importantly, our target is to bring this 15.29% ROCE, return on capital employed to 17%, 17.5% ROCE, so that would be our focus going forward.

Gross margin for us, we are a blend of businesses and we don't target gross margin, we target PBT, we target capital efficiency, ROCE. So accordingly, sometimes in quarters you do see some swings. This is not emblematic of anything wrong going or an erosion of our margin from our customers. Because some of our businesses have 30%, 40% gross margin, some of them have only 12% or 13% gross margin, gross margin being defined as margin after variable. But when you finally see it filter down to PBDT, since we target PBDT, we target PBT, you will see very good stability. So I think, my request is that you hold us accountable for the bottom line for PBT and also capital efficiency, that would be the metric. On operating profits, there will be variations because of the nature of our business, because the nature of the products we sell, if revenue attribution shifts from one product line to another product line, then that does have an impact on that. So those are my answers. And if you need clarity further on any of these,

Dilip Sahu: That's where I was coming from, see, once we see a gross margin dip of 2.5%, that's a little bit scary for a company like ours whose profit after tax is 2.5%. So that's why giving details about the individual businesses takes away those apprehensions where are we really going. Because if you see the gross margin of 2019-2020, which is 40% odd, coming down to 38% odd, there's a 2% dip in gross margin.

Aditya Rao: Sir, we will look at the numbers you are comparing, sir, but I would also request my CFOs to chime in on this. But if you are comparing the first quarter of this financial year, which is what the conference call is covering today, if you compare that to the fourth quarter, it's about a 0.6% swing, which is very natural. Is that what you are comparing, the quarter one versus quarter four?

Dilip Sahu: I am seeing this presentation, I don't know what is the slide number, the gross margin of quarter one was 38.5% versus 40.2% of Q1 FY 2021, and 40.9% of FY 2020, which is a likeable year to compare, FY 2019-2020. So if you really look at 40.2% versus 38.5%, that's where I am coming from.

Shrikant Bhakkad: Sir, you have to look at that number in terms of Q1 to Q1 comparison. And in terms of Q1 to Q1 comparison, we are at 38.81% versus 38%. I think the margins that you are looking at, gross profit margin percentages, it is 164 basis points, that's there in the presentation. It also includes other income component into it, which needs to be presented. So, if you can remove the other income component, then the number will be 0.61.

Dilip Sahu: The last question, if I may, if I can get one more question to be put, this is regarding the railways business. There is a lot of government circulars around people coming, attend offices compulsorily. So, is there any movement we are seeing in the railways business of ours in terms of inquiries and stuff?

Aditya Rao: So, railways continues to be a little bit of a black box, our railways vertical continues to be a little bit of a black box. As I mentioned last two quarters, we are not able to give you any guidance on that right now. What I can tell you is that the business unit is profitable, that we are planning for growth. But the railway board based ICF, MCF orders, we don't have a lot of clarity. In my view, they have not fully recovered from the pandemic themselves. So, how that will evolve over the next few quarters, once they get clarity, they will pass that on to us and I will be able to pass that on to you. But as of right now, the only thing I can commit to is that the business unit is stable, but obviously nowhere near where it was before. But frankly, neither our growth story nor our PBT depends very heavily on that business vertical right now. If the revenue comes back, that's fantastic, it will be a big boost to us. But even if it doesn't, the numbers which we are committing to you, PBT growth quarter-on-quarter, capital efficiency growth quarter-on-quarter, those will persist. But as of right now, railways alone, we are hard at work building a long term strategy on that. But once that is crafted, I will resend it to you. Our existing revenue streams, ICF, MCF, we honestly have no clarity right now.

Dilip Sahu: Because this number of Rs. 140 crores is pretty much static for a long time. I was just wondering, we are not getting orders as well as we are not building the pending orders. That's what my question was.

Aditya Rao: Good question, sir. So, I assume you are saying Rs. 140 crores order book. So what's happening is, we are invoicing the same amount, we are booking the same amount, which is around Rs. 10 crores to Rs. 12 crores per month, range bound almost. So it's not less than that, well it's not more than that also. So that's why it's more or less around that Rs. 140 crores number. But what I can tell you is that the business unit, the CEO of that Mr. Dayasagar is someone with decades of experience in this industry, we are ramping up our export orders for that business, we will very soon give you more clarity. But there is reason to be optimistic, it may take a little more time, maybe a quarter more. But I think we will be able to give you a lot of clarity on that. But for now, right now as it stands, you can expect sustainability on that from an order book point of view, revenue point of view. So, sales are happening per month, so the order book is not static because no sales are happening and no order booking is happening. It's static because the order booking and the revenue is matching.

Dilip Sahu: Thanks, Aditya. Really appreciate your candid answers. And I will come back to your IR department on the expectation.

Aditya Rao: We would appreciate that. Please do tell us the specific communication, clarity format you would want and we will absolutely do our best. Our goal is to communicate clearly and we will make sure that happens. Thank you so much for your questions.

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

V. Raman: Congratulations on good set of numbers under challenging circumstances. My question was standard actually, I have raised it a couple of times actually with you. Our profitable divisions are basically hydraulic, railways, freights, environment and currently the U.S. based. Many of these clearly have much superior margins. There are a whole set of other businesses which are probably pulling down ROCE, which is really what you are focused on. And it also poses the challenges that other shareholders are posing to you, which is in terms of more disclosure and all of them. I appreciate your challenges in terms of making it more complex in terms of how to deal with this. So, my question is a little different from what others have raised, but my question is really, why is it that we are still looking at other businesses which are margin dilutive?

Aditya Rao: Thank you for your question, sir. So, what we try to encourage above all is sustainability, and that sustainability should be in revenue and in margin protection. So, you are right that some of our businesses are higher margin than others. But the basic metric we use when we look at whether we should be in a business or not is, we ask if we have a core capability of delivering value in that business, do we have the physical assets, do we have the manpower, the IP, the know how in order to deliver value, and value should be other thing of margin. And that shouldn't be just for one quarter or two quarters, it should be over the medium term. So, we do have verticals right now, and I will name a few of them, for example, our pre-engineered building vertical, which are at lower than expected margins. But over the long term, we believe them to be strong contributors, or they will be strong contributors. Unfortunately, for these kind of businesses which have big engineering teams, which have structural engineers, project managers and others, sometimes when there is a down cycle from a capital goods sector, they do tend to underperform.

However, the question we ask ourselves is, what is the long term viability? Will people still be making buildings five years from now, six years from now? If that is the case, then we go ahead and do it. If we feel the answer to that is no and that we will either, A, not be able to deliver value for whatever reason; or B, the business itself will not be viable after a certain period of time, four years, five or six years, then we exit that business. So, we have made several of these choices in the past and we will continue to make them. Our goal is, yes, capital efficiency, but also sustainability and the impact that we make. So, that metric we will use. And what you said which is that remove the low margin business so the ROCE increases is absolutely appropriate, and we are hard at work to ensure that happens. And the way that will play out is a consistent ROCE improvement, which if you look at the last three, four quarters, I mean, if you go back one quarter our trailing ROCE would have been very low, now it is up to 15.5. I think next quarter you will see further improvement on this. So improving ROCE, improving PBT margins, improving capital efficiency, which is effectively ROCE of course

V. Raman: I think the question was actually in the context of just two things. One is actually, the two things that are very material from a Pennar point of view is management bandwidth, which is enrollment of your time and key management time. And most of our businesses are capital hungry. So therefore, for us to ration it a little more meaningfully, I am wondering whether we should be walking around with reserves rather than actually wanting to fuel on the division at the same pace.

Aditya Rao: Good points. I think those are definitely the two bottlenecks we have, management bandwidth and capital is obviously finite, nothing deserves or nothing can be given infinite capital. We are absolutely doing what you are suggesting. It may just be moving at a pace that is slower than it should be. But our preference is, we see diversity of revenue or doing too many things is obviously bad, it prevents focus, it prevents specialization, it prevents value addition. But the way we see it is, we have to make these choices not just seeing the current capital efficiency, working capital and taking that into account. But what is the long term viability of a business, what are the businesses we should be in Pennar, what are the business we should not be in? That is something we have to follow up.

Your point is absolutely right in that. And we are making these decisions quarter-on-quarter, but we are not just using the metrics of current capital efficiency, current bottlenecks, but long term sustainability and viability of businesses is what we will do. For example, railways is a very high margin business, but as it turned out, during pandemic times railways is not sustainable. Does that mean we are going to exit that business? Well, no, we should not do that. Because when we are when we are sick, we are sick, but we will get better. So when the capital goods sector is constrained right now, it will get better over time. And I think we have to prepare Pennar to be a company that can sustainably deliver good returns on capital. And that means when you break the problem into pieces, all of our business units have to do the same.

So, you are right, we will reduce the business's units we have, we will become better at communicating what each business unit is doing. I mean, some of them are order book based, some of them are just scheduled revenue based. But giving clarity to all of our stakeholders is critical and also being capital efficient has to be the metric we use. So, the only thing I am adding to that is long term sustainability. I mean, there is cyclicality for some of these businesses. So we have to be capital efficient, conscious of where we are deploying our capital. And our manners, obviously, as you also said. But overall, I firmly believe we are crafting a set of businesses which are well poised to scale well in the future, and there will be four or five businesses, there won't be 10 businesses. So we are going to ensure that happens.

Moderator: There's no response from the line, we will move to the next question which is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Just wanted to cross check what I heard, can you share the gross debt and cash balance number?

Aditya Rao: In terms of gross debt, as of consolidated 30th of June we are at Rs. 591.63 crores.

Vikram Suryavanshi: Okay. And cash balance would be?

Aditya Rao: Cash balance would be close to around Rs. 55 crores.

Vikram Suryavanshi: And the next question is regarding this outflow on PEBS business as well as this solar kind of thing, the way government is promoting renewable energy sources and Atmanirbhar Bharat particularly in looking at this solar panel manufacturing also, so how that is shaping up in terms of opportunity for solar business? And second, on your outlook and margin profile on PEBS broadly.

Aditya Rao: So solar continues to do well for us. I think in our LMS business, though, the solar industry per se had a lull period, with only 5 gigawatts overall in the country being implemented, we were able to maintain a substantial order book. And that continues. So from a broader perspective, we expect our solar revenue to be higher. And this plays into a little bit of what I was talking about in the last question, which is that solar was a business that was not doing well two years ago, it's doing well now and I believe it is going to do well next year. So, we need to evolve a framework where we look at these as long term opportunities, understand that there will be cyclicality sometimes in some of these business verticals. And then depend on other business verticals to bear the load, so to speak, when there is cyclicality.

If we do this and we have, I don't like using this word, but if we have that diversity in revenue streams, diversity in profitability, what it does do is ensure that we don't have a sudden crash and profitability, it ensures that our capital efficiency holds up. Because these are volatile industries, I mean, solar will have an up cycle, it will have a down cycle, automotive will have an up cycle, will have a down cycle. I think we need to structure ourselves in a manner so that we can ensure that solar will it be there five years from now? Yes, I believe so. I think solar has a long way to go. So we will continue to have our capabilities, invest in our capabilities in this business. But as of right now, solar looks quite strong and this year and next year we are projecting growth.

For PEBS as well, a lot of the same argument stands, the capital goods sector has not been doing very, very well. But over the last three, four months, there has been a fair amount of recovery, our order books have been growing continuously in PEB over the last couple of months and the revenue has scaled up, the business unit is obviously profitable. I think with what we have, our own projections for that business unit, I think quarter-on-quarter employment will definitely be there. And once there is a broad based recovery in Indian economy, which is not just the commodity companies doing well, but engineering, process industries, everywhere doing a lot better, going in for expansion, as they seem to be right now, then PEB will take up, I don't see it in any way not taking up. But even right now it's profitable and focusing on improving revenue and growth and scale. And Q2, for the overall company and for PEB is far stronger than Q1.

Vikram Suryavanshi: And in terms of EBITDA margin for PEBS, ROA are at healthy level or we are still below like a sustainable level and there could be a recovering coming?

Aditya Rao: The EBITDA margin and the PBDT margin, and even the PBT margins for PEBS will continue to grow. As of right now it is in low single digits, the PBDT, we expect it to scale very soon. It is ultimately a scale impact the gross margins are very healthy, high double digits. But once our order book continues to grow, once we convert a lot of that into revenue, then we will hit the higher PBDT numbers from a percentage point of view.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.

Aditya Rao: Thank you to all our stakeholders. We have taken the feedback that we have received on this call. The questions covered steel prices, our U.S. investments and also our net debt and interest cost, and whether we have improved capital efficiency and have improved margins. I think a couple of the stakeholders also had requested that we change and improve the quality of our communication and clarity in our presentations, give more information; we will work with stakeholders and others and ensure that all publicly available information is crafted in a way so that we can ensure better communication, better clarity so that you have the information you need to, to guide us further as well. Thank you very much for your questions.

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.