“Pennar Industries Limited Q3 FY-21 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 Q3 and Nine Months FY21 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, opinion and expectations of the company as on date of this call. These statements are not the 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. 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, Margareth. Good morning and a very warm welcome to everyone. Thank you for being on the call of Pennar Industries Limited. We're happy to have with us management of Pennar Industries here today for question-and-answer session with 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 – CFO, Mr. Manoj, Head Corporate Affair and Mr. K.M.

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

Aditya Rao: Thank you Vikram. This is Aditya and I wish you good morning to all the stakeholders of Pennar Industries. And thank you for attending the Third Quarter of the Financial Year 2021 Conference Call. I hope all of you are safe and are taking all necessary precautions during this pandemic. The structure of the conference call will be the following, I will first provide an overview and my comments on the third quarter performance, our CFOs will then provide details on major financial metrics. Post this initial summary we will take calls from our stakeholders

Firstly, we will start with an overview of performance, quarter three saw further improvement in our revenue compared to quarter two of the current fiscal. We recorded net sales of 412 crores in Q3 compared to 390 crores in Q2, in Q2 we had recorded a marginal profit as we recovered from the lockdown that is imposed and the attendant issues with the addressable market, we have substantially grown our profitability in this quarter with a net PBT of around 3.42 crores and a cash profit of 16.17 crores as mentioned in the previous conference calls, our updates going forward on our investor conference calls we have broken into three parts profitability, liquidity and growth.

On profitability, we have re-achieved profitability at Pennar, and our focus is now on re-achieving our pre-pandemic profitability and cash profit. Post that, our goal will be to start generating growth quarter-on-quarter compared to the pre-pandemic quarters. We are now consolidated in projecting that in quarter four, we will re-achieve our pre-pandemic EBT, PAT and cash PAT on a monthly and on a quarterly basis. Come to liquidity we are also hard at work to bring down our working capital usage in terms of number of days of revenue. We had discussed reaching working capital usage of about 420 crores while growing revenue on our last call and we are happy to note that we have achieved this, we are at 421 crores. We continue to work on revenue growth and we will re-achieve our pre-pandemic revenue in this quarter. However, we continue to work on reduction of working capital usage in terms of number of days. So our current target is to get to 75 days cash-to-cash cycle. We are currently at around 100 days on that.

The reduction on receivable, inventories and as well as working with our vendors and suppliers, we intend to achieve a cash-to-cash cycle of 75 days by the end of the first quarter of the next financial year. Coming to growth we have continued to invest in our growth opportunities in the third quarter, specifically our DIW plant in Chennai, our ICD capacity expansions in Chennai, metal buildings plant in Tennessee in the US and our tubes IOR sales in the US. All of these investments will bear fruit in the current quarter and in Q1 of the next financial year. And we believe that they will allow us to substantially grow our PBT, PAT and cash PAT. We expect to commission CAPEX of around 75 crores in this financial year as we had mentioned on our last call.

Our current addressable markets also continue to show a lot of recovery. Most of our revenue streams will have returned to their pre-pandemic status in this quantity, it is the fourth quarter with the exception of our PEBS, railways and environment revenue stream. The railway verticals outlook is currently unclear, I should be able to give a better idea of the way forward for this in the next quarter. PEBS in an environment vertical will return to pre-pandemic profitability in Q1 of the next financial year. As, I mentioned the last time we believe that the combination of these two initiatives recapturing our addressable markets over the next few months and investments into new addressable markets will allow us to exceed our pre pandemic monthly revenue and profitability before Q1 of the next financial year. And we are well on track to achieve that.

Coming to we do not give guidance for what we had started or last two quarters is to give a broad idea of where we are headed for the current quarter. In that we would like to note that in Q3, we had achieved 70% of our pre-pandemic cash PAT. Pre-pandemic cash PAT being defined as the PAT plus depreciation plus any deferred tax in Q3 because Q4 onwards obviously the pandemic had started the lockdowns had already been initiated. So you generated around 16.1 crores of cash in Q3 before tax and the corresponding Q3 for the previous financial year was around 23 crores. At this point, the management would like to state that we are likely to achieve 100% of our pre-pandemic PBT, PAT and cash PAT very soon. The reference quarter we’re using as I had mentioned is the third quarter of the financial year

2020. As to the fourth quarter onwards, the pandemic and the lockdown in India had commenced. In conclusion I would like to reiterate that what we had committed on our last call that we are confident, that we are well placed to regain a profitability levels, improve our working capital and ensure growth in the next financial year is well on track.

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

J. Krishna Prasad: Good morning to all the stakeholders. The consolidated financial highlights for the Q3 FY2021 the net revenue, we were at 412 crores compared to net revenue of 390 crores in Q2, others are by close to about 5.5% in terms of EBITDA, we are at 37.53 crores in the current quarter versus 32.6% in the Q2 of FY21 which is a bit close to around 15% from the last quarter, PAT after the minority interest is 2.57 compared to PAT after the minority interest is 0.24. So, even if the increase in the revenue of 5%, but overall the PAT has increased by close to around 10 times. In terms of consolidated financial highlights to the nine months, it is net revenue wise we are at 968 crores versus 1655. The last nine months, in terms of EBITDA we are at 57 crores versus 158 crores.

Overall in terms of the highlights, the Ascent Building LLC which we have as a wholly owned subsidiary of Pennar Global Inc. would invest close to around $4.9 million for setting up a PV PEB plant in USA. This we have briefed in the last quarter that we are setting up this up stream. Now we have decided to invest and the total investment would be $4.9 million. Pennar Industries has a healthy order book position through this quarter and the order book position as on 31st of January or 1st of February is close to around 434 crores in terms of order book and – Enviro division has 46 crores and Railway division has 200 crores. So, these are the broad business highlights in terms of the financial performance. Now, I'll hand it over to the moderator for the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dilip Sahu an Individual Investor. Please go ahead.

Dilip Sahu: My question is regarding the extent investment, what would be the asset term in this business and profitability and as per your press release you will get into production, commercial production by first quarter of next year. Which looks like a very, very short time from getting into the project, to getting into the production. So, can you just throw some light on this, that's question number one. Question number two we had some big write off of bad debts in last two years, is it over or is there something pending or what kind of write offs we are looking in this year, that's the second question and the third question is obviously third question is about the cost of raw material and we have got a huge building order book, how is the current rise in steel prices going to impact both building and railways order book?

Aditya Rao: Thank you. I will answer the questions. So Ascent Building systems is a step down wholly owned subsidiary of PGI, which is a wholly owned subsidiary of Pennar Industries. The asset turns that you speak of, the total capital we will be deploying is about $4.9 million in that company and we expect a first year revenue internally of a certain number, but what the CEO of that business who's a veteran in that field in the US, has committed to us and what we have already started generating an order book, gives us the ability to say that we are expecting around 15 million. So an asset flip of about times four is what I would guide you to, but do keep in mind that I consider this to be a conservative estimate, I believe we will be able to improve substantially on this but at a minimum four in terms of revenue. In terms of commissioning of the plant, the question you had was that it is faster or not, there are a couple of reasons for that. One is that we bought the building, which is the factory building, which it was previously a metal building plant, which was not being used. So we have bought that, so we did not need to meet the building or do the civil works, what we needed to do was to install the equipment, and make sure that all the attended required equipment in turn for material handling cranes movement, were all installed. So that has resulted in the total CAPEX and also that the plant gets commissioned very, very quickly. So as you said, as you had said in fact also that we expect the commissioning of this plant to be in the first quarter of the financial year. And we already have an order book of close to about 4 to 5 million on this. We have a very good team over there, they are very enthused about getting up and running and we are quite comfortable saying that this business is going to start contributing to our revenue and profitability when in the next financial year itself.

The next question you had was on write offs. We do not buy write offs, we mean that if there is any accounts receivable, which was not collectible, or if there is any inventory or current asset which is either obsolesce for that current asset or any other kind of lighter, at this point we don't expect anything specific. We constantly measure the quality of our current assets. And we don't currently have any concerns on that, we were independently assessed externally. So nothing to share on that point where there will be any massive. However, we do constantly provision quarter-on-quarter for a certain percentage, consider it a historical assessment of liquidity in accounts receivable or inventory. So we provision for that, so we'll continue to make provisions. But that's obviously not the same thing as write offs as of right now, I have no substantial write offs which would be material to the company to communicate at this point.

The last question you had was on steel prices and the cost of raw materials impact on our order books in PEB and in Railways. We have made sure that any steel price increase, which is and it's been pretty massive, as you have noted 70% in the last three or three to four months, we have ensured that margins are protected. We did have an issue in the third quarter where some of the revenue we had to go back on because of the rapid steel price increase, predicated that we were not able to cover the raw material. I can assure you any order that will at a book at a price we try to cover the raw material cost through our relationship the JSW and Tata's and other steel providers. If for whatever reason that is not possible we will give up that order book. As of right now the order books for both PEBS, for Enviro and our Railways business are at us standard margin. There is no difference, wherever for any orders where we have not been able to cover we have gone back to our customers and asked for a price negotiation or a price variance clauses. So all of that has been done so at this point, we have no order book right now or average order book margins contributions, which we monitor every month have not decreased by any measure compared to the previous quarters. Does that answer your question sir?

Dilip Sahu: Yes, can I ask one more question or shall I come back on the queue?

Aditya Rao: You can go ahead sir.

Dilip Sahu: So, I was listening to the tubes investment concall, where they talked about certain concern in the railways business in terms of execution because of the COVID. And also the uncertainty regarding the order book, so railways is a profitable business for us and it's fairly substantial in order book. So what is your comment on railways in general, for next two to three quarters?

Aditya Rao: I would share the concerns expressed by TI on railways, while we currently have a reasonably strong order book, and yes railways as a business unit, is still profitable and has good profit margins. We are unable right now to give you clarity on what's going to happen in the next one quarter also, because there is a dramatic drop in off take from a major railway's customers, which include ICF, which include NCF, and others as well. So at this point, we are not able to comment more than saying that it will continue to be a profitable vertical. However, to give you a really clear picture, of what we expect for the next financial year, we will have to wait, I will probably have to give you that clarity, because right now we cannot possess that clarity, it could go in a couple of different directions. So, the most proper course of action is for us to withhold comment on that from our side until there's clarity for us. So then we can communicate that clarity to you. Of course, I would like to state that all of the comments we had made in terms of our profitability, what we're going to achieve in this quarter, specifically re-achieving our pre-pandemic profitability in terms of PBT and cash PAT, we will absolutely. We have taken that into account, pick in their current railways situation into account before committing that and we are quite confident of the commitments we have made on the call today. But railways right now, I am unable to give you clarity, I share the concern that PI would have mentioned on their call, it's very, very vague right now.

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

Vijay Kumar: I would like to get some comments about your outlook on interest cost, there have been always guiding towards 3 to 3.5% of turnover, especially when most of them are current assets. But for the lockdown period, we think we were not able to see that proportional at 3.5% and now we are almost crossing 5%. So, where are we headed, is there any balance sheet actions. How are we planning to get this debt in control, interest payment in control can you throw some light please?

Aditya Rao: Thank you for your question Vijay important question. She can to answer this question. Shrikant will answer this question.

Shrikant Bhakkad: We are taking multiple steps here in order to reduce the working capital usage which is little high and as we said at the beginning of the call, presently the working capital is close to 100 days and what are the receivers that we have and the inventory that we have, we have reviewing each inventory and that is a part of it, line-by-line to see that we can collect more in terms of receivables and wherever there are non-moving inventories and non-receivables we are making those provisions as well in the books. The interest cost is presently high because of certain pre-pandemic, whatever the in debtors that we have are still going to compete. There are a lot of sites which are stuck at the, where the money's have stuck. So those are retention money which we have typically in the projects in terms of PEB and Pennar, Enviro. So as and when those money's come back and flow back into the company, the costs will reduce. You're right we have challenges here in terms of overall interest cost being higher, but we are making short interest cost reduces so as and when our addressable market and the revenue grows. This is also because the net interest to net sales percentage is also presently high because of the lower net sales costs. While the debt has also reduced it is not significantly reduced in terms of what we have, the finance cost is reduced close to around 5% or 6%. While the revenue overall has reduced by 40% when you compare period-on-period so these are the differences by we have and as we increase our revenue, we would not again have the additional finance cost which will come back, those will have the working capital movement, we will not have that kind of again in place. So your question is right, we are presently little high interest on net sales percentage and then we will ensure that this comes down give us couple of more quarters, and we will be fine.

Aditya Rao: To add on to that Vijay, you will see the 5%, come back down to 3% in the next couple of quarters at Shrikant has said, and you will see substantial improvement in the next quarter, in the fourth quarter itself. But the challenge has been the higher working capital we're carrying in terms of number of days is directly resulting in higher interest cost, also when a lot of the newer revenue streams when they get commissioned as well. And they are also at a working capital, which is in-line with our as I said our cash-to-cash cycle that too tends to moderate the entire working capital and under correspondingly it's our interest cost, the percentage of net sales. So we expect by the 5% to improve dramatically over the next couple of quarters and in fact, in this quarter itself.

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

Venkata Subramanian: In the minutes of a board meeting, we seem to have taken an approval to actually put one of our businesses on low priority and probably actually exit, can you throw some light in terms of what the thinking is here?

Aditya Rao: We're not actually exiting any business sir, are you referring to the One Work sale sir?

Venkata Subramanian: I probably got a sense that it's one of our BPO engineering design kind of business?

Aditya Rao: So, One Works was a company we acquired in the financial year 2020. There in the field of BIM, which is building information modeling. We have managed even through the pandemic time to scale that revenue up, but what we have done is transferred the customers, the contacts that we had from that business to the regular company and since we have done that it doesn't make sense for us to continue operating the wholly owned subsidiary because there is no room, all the revenues is now been put in Pennar Industries. So it doesn't make any sense for us to continue to operate a subsidiary with no revenue, the BIM revenue now existed in Pennar Industries.

Venkata Subramanian: That's a very scalable business segment, that's something that we can probably grow many fold from here, right?

Aditya Rao: Absolutely. So we are not exiting that business at all we expect to, we expect to grow that business further. But that will be on the back of organic growth now or even if it's inorganic, it will be through other entities, what you're mentioning in terms of our is there, there is a company which we acquired, which is a wholly owned stuff, we have transferred the business to the main company. Now we would like to, there is no point operating a separate business, this governance has other issues. So it's a no revenue, no operations company, which we are, and would like to focus.

Venkata Subramanian: Understood. I would like to take you back for something that we discussed maybe about a couple of quarters ago, which was on the large right off that we took about 12 months ago. And you said you didn't agree with your auditors and that there could be a substantial recoveries, but we haven't seen that, are we overestimating where do we stand on both the inventory and receivables?

Aditya Rao: Could you repeat the last part of your question, you said a large write off about a couple of years ago and what did you say after that?

Venkata Subramanian: Not even a couple of years ago, it was last year, and we said that was something that you probably had to do because the auditors are actually opine in another, in a certain way which was and you were more confident about the recoverability of all that, but we haven't seen that right. That has not played out, right?

Aditya Rao: So the asset, what you may be talking about maybe are HDO related, NPCIL related revenue streams, those remain active as of right now and we have a pretty strong account receivable. So whatever corrections we have taken at that point of time, once those amounts are collected and the projects are closed, we will be able to re-get that back on to the balance sheet and we still expect that to happen. However, because of the pandemic period, there's been a lot of slowdown in these projects in these shall we say the projects which are from NPCIL and others as well. So once those come in, we'll be able to take them but as of right now the AR for that, I won't call it write off for all this provisioning and that, we still retain the ability and we are very confident that we will be collecting that amount, there is no of write off, or heavy write off that we are anticipating in our current accounts receivable or in our inventory.

Venkata Subramanian: Without going into specifics, if you go beyond the current quarter, what kind of visibility do we have for instance, a lot of other engineering companies they are talking about possibly the China Plus One factor actually playing out, we are probably seeing some lot of activity on the ground, doesn't that augur very well for our building solutions and what kind of, what's your outlook on the next couple of years?

Aditya Rao: China Plus One has resulted in some revenue growth for us, especially in our industrial components division, and that will persist, there's definitely groundswell of opportunity there, which we are absolutely trying to improve and grow on, in fact our entire VIW investments can be thought of as an extension of our resulting because of that, because of the current distribution. However, when we make capital investments, we will keep in mind the long term future of any business and not any short or medium term imperatives that may drive it. Now, I do, a lot of people feel this is something that's permanent, and I would agree with them also in some sense, but the capital investments we are making and our current assets, our current revenue generating assets, and our businesses are well placed to weather and to grow over the next 10 years. So we don't invest in any business unless we feel that, that business will exist 10 years from now. So short term, medium term investments, no matter how attractive it may look on paper we are not going to be making it. So consequently, if you look at our current revenue streams which include automotive fields, railways fields our building pre-engineered building construction fields and then environment fields, we believe people will need water treatment 10 years from now, we believe people will make buildings 10 years from now, we believe that people will drive, there will be an auto powerful for auto sector 10 years from now, which will, it will move to electric but that's the reason why we are also moving to electric in our new investments, and there will be a real sector as well. So the last thing I would add is around the energy front on solar as well, we believe solar is here to stay. We are previously were only in the field of solar MM. So we were not quite happy with what that field was achieving, but with the current value proposition, with our current revenue generating assets, solar also will continue to be a big opportunities for us. So on all of these five verticals, automotive, railways, building construction, environment and energy, we are very confident that we will have good addressable markets over the next I can't say over the next six months, one year that will definitely grow because we are coming out such a low base in the last year because of the pandemic and the lockdown and the effect that has had on our addressable markets. But we are quite confident that the investments we have and investments we have made, the assets we have and what we're going to procure are going to put us in a good place to improve our addressable markets. And if our addressable markets increase our revenue and profitability will also increase. So we are quite confident, Q1 was bad, Q2 was profitable. Q3 more higher profit, Q4 absolutely, substantially much higher profit. And next year, of course, with all of our assets coming online, and hopefully some resolution of the pandemic and lockdown. We currently are very, very optimistic. We would project a very good year next year. And that story should continue as we continue on our growth path.

Moderator: Thank you. The next question is from the line of Parin Jhaveri from JNJ Holding. Please go ahead.

Parin Jhaveri: I just have one question, in terms of our order book which according to the slide is about 680 crore and in which as per your statement, you are seeing some dip or some delay in the railway part. So, if I just look it's about 30, 35 day order book kind of a number. So can you just throw some light on this, and how do you look going forward?

Aditya Rao: So the order book of 600 crores that you mentioned does indeed include our railways business, PEB, Enviro and railways, and you're right in that, as I said an answer to the previous question, railways, revenue is volatile. It is not zero, it's volatile it's set up, it's somewhere between 30% to 40% of what it was pre-pandemics. That being said, order books represent only about 40% of our revenue. A lot of our revenue is scheduled revenue, a lot of our revenue is for example, for the automotive sector, we make a lot of automotive component just scheduled orders, we don't function on order book. Order books specifically affects or is active only in the PEBS environment and the railways business.

Consequently, we don't believe that this railways reduction in any way affects our revenue and it is not as you had said 35 days, that can most of our verticals there which are order book based for example PEBS 434 crores of an order book right now. We have foreseeability for the next 10 months, for environment Enviro business, we have foreseeability for the next four or five months, railways business we have a large order book, but we don't expect that to translate to revenue at the same clip that it has historically been. So, the issues that are outlined in railways firstly, will not we have taken that into account when we are projecting revenue growth for fourth quarter and very substantial profit growth for the fourth quarter.

Secondly, since majority of our revenue is scheduled orders and not order book based, the entire order book and that been taken as 35, 40 days would give you an inaccurate picture of our revenue foreseeability and revenue safety nets right now.

Parin Jhaveri: What FY22 look like in terms of top line if you can just guide us and on the EBITDA margin?

Aditya Rao: I can assure you it will be much higher than FY21, beyond that we have completed our budgeting exercises, the board has to sign off on that budget once that is done I will definitely come back with a far more accurate, but at this point, I guess you can say it's going to be much higher than FY21, but what I can say is quarter-on-quarter growth will continue that I can. So Q4 was, as I said Q2 was better than Q1 obviously, Q3 was better than Q2, Q4 is better than Q3 substantially and Q1 will also be better than Q4 that we can more or less comment.

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

Vikram Suryavanshi: Basically, can you give some more details about the tube business in terms of where we are in capacity utilization or compared to the pandemic, where we have reached in terms of revenue and for tubes within that how is the breakup for ERW and CDW as well as the opportunities in export. So, just a more clarity on to tubes and business?

Aditya Rao: Understood, so the tubes vertical currently executes about 20 crores in net sales per month. The majority of that is ERW, the CDW sales would be about 6 to 7 crores from a pure capacity utilization point of view our ERW plants are at capacity. CDW we are at increasing our capacity utilization especially with our tubes IOR revenue streams in the US increasing which we will supply partially if not entirely from here, from India. So, right now our capacity utilization in tubes is close to, as a blended capacity it's about 60%, but if you look to only at CDW it's probably closer to 50%. So we will try to bring that up over the next few quarters. And as you're I'm sure aware CDW is a more profitable verticals. So that's good news from a revenue and profit growth point of view that we are looking at higher sales, in fact in the last month itself, we have improved our exports of CDW from substantially from selling about $200,000 per month we are not build 300,000, we expect we will reach about 600,000 over 4 to 5 crores per month. So, exports itself reaches that, there is a domestic market combined should take our tubes businesses revenue and profitability up higher but we are quite optimistic that tubes will do in, in this quarter and going forward.

Vikram Suryavanshi: And in future will we look at opportunities from tubes to go to the higher size like pipes and all that in metals or tubes will be itself will be big opportunity for us?

Aditya Rao: We have a large diameter project; we had kept it on hold considering the pandemic. We are in discussions with the business unit head out of that vertical and I will get back to you and when we will but we do have plans to do that and at some point of time we have to do it, now is that in this current fiscal no, we will not be commissioning that CAPEX spending investing capital in that whether we're doing it next year or not, I'll come back to you once you've completed our internal discussions.

Vikram Suryavanshi: Okay, and as a bookkeeping question, what is current gross debt and cash level on the balance sheet and second, the 75 crore export this year, but now we are seeing a revenue is picking up too that amount of pre-pandemic level and growth is coming back for almost all the segments, are there CAPEX plan finalized as per the next year or will the large part of basically want to understand that the free cash flow will it be invested again in growth or how is the plan for the delivery?

Aditya Rao: Regarding the debt I will hand over to Shrikant and KP for their comments and I will answer the CAPEX question after that.

Shrikant Bhakkad: In terms of the total debt of the term loan what we have had 154 crores at March and that term loan has now reduced to 140 crores So, it is close to around 14 crores overall decrease in terms of terms loans, in terms of borrowings we were at net if you see the borrowings including the leverage, we were at 366 crores, now it is 349 crores. So, in terms of borings also there has been a decrease, but not as massive as we would have expected during this. So, overall our debt has come down from 520 crores to 490 crores. This is the total overall debt numbers. Thank you.

Aditya Rao: Regarding the CAPEX, what I would want to state is that, as you said we are finalizing a budget, we will have numbers to share soon on that, but as of right now we are going to continue with 75 crores and right now, as I mentioned on the call in Q3, we generated about 16 crores of cash before tax. So, we expect that to climb substantially in this quarter. So, we don't anticipate, we will not be raising additional levels of debt to finance these things. So, as much as possible, we are going to vast majority of our CAPEX will be through our internal accruals. So, accordingly the use of our cash that we generate will be as a feedback loop to ensure that we increase our calculation capacity, which means revenue generating asset which means revenue. So, the 75 crores will be funded through internal and we are funded that through internal in this financial year. So, yes next year's plan we will come back to you.

Vikram Suryavanshi: Sure. Just going back to question queue, if you can give cash balance on balance sheet and that's from my side?

Aditya Rao: Total cash we have close to around 22 crores in terms of the amount that we have and the investment in mutual funds are another close to around 18 crores so total 38 crores is what we have as of December.

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

Venudhar G: I am new investor. So, if I ask any irrelevant question, please.

Aditya Rao: Not at all sir, we are glad to have you welcome to the Pennar family. Any questions you have, we are glad to answer.

Venudhar G: Yes, I have four or five questions. So, first question is, what is the status of land scale in Patancheru and have you thought about going for development of land instead of outright sale, that his first question and second question is any specific reasons for the resignation of Vishal Sood and Mr. PV Rao and third question is, you have said that regarding the divestment of One Works BIM Technologies, you have mentioned in this call itself that you have taken all the contacts and all the business related things to Pennar Industries and you're simply divesting but in the unaudited financial reports it was mentioned that the board has approved you and Executive Director K Lavanya Kumar, to identify solicit deal, negotiate and finalize in the best interest of the company, while divesting the company. That One Works BIM Technologies, so does it going to have any revenue impact on the Pennar Industries. And one last question, can we expect any dividend by the company any time near future?

Aditya Rao: Okay, thank you for your questions sir. The first question you had was on status of the land sale for Patancheru. We will not, the company will not, is not in land development so we will not get into land development we are only going to be selling the land directly to an interested buyer. We have finalized a buyer and we have concluded an agreement with them. Since, as we have some amount of long term debt, and it's a first charge and all the assets of the company. So, there's a communication that's moved to the banker and the potential buyer, once the banker is able to give the documents of charge removal or NOC, once he gives the NOC the transaction will complete, once that is done we will inform you once that is done but it's not ball in their court and I am told it should be on the bank side, on the plus side that capital gains has not been taken into any of our P&L accounts. So when that does come that adds the value of that land to our P&L. But so far right now, we have not taken it in but it's imminent.

Second question you had was regarding the resignation of Vishal Sood. Vishal has been a Director who has been with us for many years, he is someone who has been integral to our growth plans through our strategies and the board was very thankful and we are definitely wish that he could continue but unfortunately, because with other preoccupations, he cannot continue as he has mentioned to us. But what we continue to wish him well in all of his future activities and there is no other reason for his resignation. There's nothing to be concerned about in that sense, as far as our opinion and knowledge is concerned. Regarding Mr. PV Rao, the nomination remuneration committee has not taken up his extension in the last board meeting. So his tenure expires on March 31st, what is to be done post that after that we can, once the board has cleared us to tell you we can come to you right now we have nothing to share on that. And Mr. PV Rao continues as the JMD until March 31st.

The next thing is divestment of One Works, as I had answered the question before there will be no revenue going forward in that company. It's a wholly owned stuff, there will be no revenue impact on Pennar Industries, because of this divestment, the divestment the board has authorized us to find through whatever process completely allow for the sale of this entity. because there's not going to be any revenue, there's not going to be any transactions or anything, consequently there will be zero impact to Pennar P&L because of this divestment. Your last question was on the dividend policy of the company. We are in the process of drafting one, as you're aware, in the last one year because of the pandemic and other reasons our cash generation as for the net for the last, for the first quarter and for the fourth quarter the previous year was impacted. Consequently, we had to revise our policies we had indeed, we are actually during, when the lockdown was imposed we had actually we were undertaking a buyback, we completed about 70% of the buyback to my knowledge, I will confirm those numbers. We believe that corporate actions of this nature are still available to us, we still have cash, we are now generating cash and our cash generation capacity is growing quarter-on-quarter. So as we conclude this financial year, we will be able to come back to you with our corporate action policy which includes dividends and buybacks. But we are quite eager to see what the opportunities in both of these options can be for the company but, what we assume is going to happen, what we are very confident is going to happen and our cash generation continues, we will absolutely articulate the strategy very soon. Those are my answers, anything further or?

Venudhar G: Yes, I have two more questions can I ask now or I have to wait in the queue?

Aditya Rao: You go ahead since we are here already.

Venudhar G: Yes, what is the status of Raebareli plant being developed by the company. And one more is what are your ambitions as CEO of the company regarding the future of the company?

Aditya Rao: Okay, so Raebareli is land we acquired to build a plant for railways business catering specifically to MCF but also for Chittaranjan and others. Those opportunities still exist, but as I've mentioned right now, there's a lot of volatility in terms of what our customers in the railways feel which include ICF, MCF, but also include customers such as GE and Bombardier and also now Medha who are implementing a large plant. So, as that picture gets clearer, we'll be able to finalize timelines. But what we have done is because, the off take from railways has decreased by a lot, we have put this CAPEX on hold, we have the land asset, we can execute it at any point of time, a lot of the assets machinery the equipment that we had purchased before that such 5-axis equipment, robotic equipment is now being installed right now in Hyderabad. Once that market opens up again, there is a lot more clarity we can absolutely hit execute and complete the railways project there. Now, we also have a land option that implement the PEB project, North India PEB project, which has also been a project which has been very dear to us close to our heart. Right now, as I've said we will look at PEB addressable market being regained in the first quarter, at that point, we'll take a call. So we will have a lot more information on you on Raebareli, in the first quarter of the next financial year once the railway situation and the PEB situation clarifies but, whenever we choose to execute we will be able to execute it quite quickly because we have the land and some of the equipment has already arrived as well.

Lastly, you asked about, I hope I didn't misunderstand the question you asked about my ambition?

Venudhar G: Yes, as CEO of the company and future of the company.

Aditya Rao: Yes. So my ambitions are to ensure that Pennar grows sustainably in the engineering fields and ensures that it is acts as a problem solver for our customers in the various engineering fields, whether they have been automotive, railways, energy infrastructure which is just building or in an environment business. The basic model of the company, as far as I'm concerned is to have revenue generating assets, use revenue generating assets to generate a profit and use that profit to grow the revenue generating assets. It's itself a feedback loop where over time, the revenue of the company will increase. We've been following this path for about three to four years, and we have grown from an 800 crore company since when I had started to now where even in the pandemic time will be now at a run rate basis we are at close to 200 crores per month, which means that we would be at 2400 crores in terms of gross sales. We'll continue on this path sir, my ambition is to ensure that during my tenure at Pennar I leave Pennar a much stronger company from a technical capability point of view and a financial standpoint and as per the company's market cap, then when I left it, it's important that we achieve all of those and on behalf of the entire management team, it's not just me with the entire management team, we have a tremendous amount of management at Pennar. Otherwise, we wouldn't have recovered as quickly as we had in in these sectors. I'm quite confident that the future is better, our best days are ahead of us and I am certain that we will grow from strength-to-strength in the next few years.

Moderator: Thank you. The next question is from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

Karthikeyan VK: A couple of things. One, can you talk a bit about the thinking behind having an operating business in USA, I'm referring to the PEBS US business, how does that tie in with your India business, how does that help, is there a synergy there, either from that side to here or this side to there, some thoughts on that and also the economics of that business, I understand you spoke about FOREX asset turn. But can you also talk about the overall economics of that piece?

Aditya Rao: Okay, so let me preface this by saying a lot of what I'm about to say next is aspirational. I can only commit to you when I'm 100% sure, but I can explain to you why there are substantial advantages to us having the US plant and what the broad level thinking is behind that not just the financial ratios, which tend to be conservative in nature. And I'll talk about the FOREX asset turn and what we actually expect it to be, but I would like as I said to preface this by saying, what I'm going to say next is aspirational as opposed to commitment, strong aspirational, not castles in the sky, but definitely realistic targets but not commitment right now.

The synergies for US plant effectively mean that when we manufacture metal buildings in the US that opens up a massive addressable market for us, by the very nature metal buildings is supposed to be executed and completed in a very short period of time. As opposed to conventional construction, the design process, the manufacturing and the project management process are all owned by one entity as opposed to an architect in BMC, labor, cement, steel, tremendous work at site. So, that provides certain opportunities from a supply chain efficiency and a timeline point of view. So, if we have a plant in the US that opens up a much more massive market for metal buildings which we know very, very well for us, with that regards the design process itself, which is where the metal buildings in the US starts, we have perhaps one of the largest structural engineering teams in the country here in Hyderabad and also in Vizag. And we have designed many, many, many US buildings accordingly, we have very strong capabilities in designing buildings, which are compliant with US courts, and aligned to US approval processes, US certification including IAS which is international accreditation service, which is required for all manufacturing activity. And also on the Canada side and others.

Since we have these capabilities, and we possess them for a long time, maybe 100s of buildings would have been designed and detailed by us and engineered by us, for the US, the combination of that plus manufacturing in US is actually a very strong, the one other thing which we believe that when we are in a unique position and will be very, very difficult for any of our competitors to achieve is that, if we can for longer jobs, larger jobs, and I would direct you at this time that the US metal buildings market is well over \$5 billion as compared to \$700 to \$800 million in India, so it's like 8x eight or nine times India's size. So, in that market if we get large jobs, we can even manufacture in India and some there. Now in India, we sell metal buildings at Rs.70,000 Rs.80,000 per tonne, sometimes it goes to Rs.1 lakh per tonne. And the US they're sold at 1.6 lakhs per tonne. That is obviously a 60% increase after accounting for transportation cost, after accounting for another is a massive increase that is possible, but of course the supply chain advantage, it's included a little bit there because they are adding a month.

My hope is that, and I will update you further on we are taking our first pilot projects for India manufacturing US supply up, we're taking that up in this month, our hope is that we are able to design in India, get orders in the US and manufacture in both US and India so that the critical parts which are supply chain efficient, which need to be supply chain efficient sent in the US and if we can do the manufacturing of the remaining parts, in India, I believe we are in a place where we can reap tremendous benefits from a margin point of view and also on the revenue growth point of view. That is the logic behind doing that, the other reason is several, there's no reason why this has to be restricted only to metal buildings. This applies equally well to solar MMS, it applies equally well to a lot of the assembly that we do for our environment business. Skits can be manufactured in India, as opposed to US, the US is a massive market we want to be present there, setting up this manufacturing plant, setting up the sales offices which you already have, setting up a warehouse which you already have, and a corporate infrastructure team of well trained professionals with massive experience in this, is a long term strategy for us to replicate what we're doing in India in the US. And that will only mean good things from a revenue profit point of view. However, there's a lot of work ahead of us in this and right now it would be premature for me to comment, which is why I'm saying these are all aspirational. We will commit to you quarter-on-quarter what we are going to do but this is a dream. Our dreams can't be small, so once we believe it realistically.

Karthikeyan VK: I'm so sorry, just to interject. In terms of your right to win you are currently saying that, at least on the business development side, it is because you have a team of experienced people.

Aditya Rao: Yes, Kimber is new the US, Eric is our Director of Global, we have several people who have 20, 22 years of experience on our team, not just the sales side, even on the operation side, even on the logistic side, even on the frankly on the oversight engineers while the work we happen here. The customer intact as far as engineering, we have an engineering, we have a great team, otherwise difficult to generate 5 million in sales immediately after they joined also had good margins and to start operations, we've already started actually revenue in February month we have started revenue in the US. So for this metal buildings as well. So, give us some time on ourselves. We are very, very optimistic, we have seen good things happened, traction is good. And if it works the way it's supposed to work, then we have good things but again aspirational right now, please force a commitment out of me on this over the next few quarters and we will essentially, we will make sure whatever we commit to you we achieve.

The last question you had on asset flip. We are committing 4x, but there's no reason why it should not be in-line with our regular flips in India, which are closer to 6x, 7x during normal periods of time before, pandemic.

Karthikeyan VK: And any comments on profitability, or economics either way?

Aditya Rao: All of our revenue streams in the US whether they be for CDW tube supply, a hydraulic supply and our engineering services are all at much higher margins than what we have in the US, in some cases they are easily 1500 basis points, or 2000 basis points more than what we get in India, but all of these are small revenue streams right now. So for them to start really impacting Pennar, we have scale up which means a lot of hard work ahead of us. And, obviously there's uncertainty in markets, but we are not committing any of this, hope we will work hard to achieve our hopes.

Karthikeyan VK: Super. Just one clarification on couple of data points, you mentioned in the tubes division you said that of the 20 crore per month run rate currently, two thirds comes from ERW and the third comes from CDW, and one third of the CDW division currently is exported?

Aditya Rao: That's correct sir.

Karthikeyan VK: And what would have been the peak mix for you so I'm just looking at what you could go back to?

Aditya Rao: Our CDW never exceeded 40% as because we had, it was around 40% for CDW but obviously we've been steadily increasing capacity, we will continue to increase the capacity. We have a capacity to about a 1000, 1500 tonnes of CDW depending on the product profile. Our main competitor TI who we, who we have a lot of respect for obviously, they have a broader product profile that we do but they do 6, 7, 8000 tonnes, at the peak they did even 10,000 tonnes so the market exists and if we can keep deploying capital and growing, which we will do but as of the current market circumstances once or two has recovered a little more once exports have recovered a little more, we will absolutely ensure that this business goes up so, tubes have tremendous potential.

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

Dilip Sahu: Just a couple of data points you have spoken and I'm just trying to clarify them. What you said is that by Q4, next year we will achieve around four times asset on for the US investment. Our working capital come down from 100 cash-to-cash will come down from 100 to 75. Our interest rate will come down from 5% to 3%. And you will achieve in this quarter just correct me if I'm wrong this quarter Q4 the profitability and revenue of last year Q3 are these correct numbers?

Aditya Rao: Let me just verify one-by-one that we had this thing, in Q4 we will achieve last year Q3 which is a FY20 Q3 PBT, cash PAT and PAT. Yes, we are definitely saying that.

Dilip Sahu: Interest outflow will be 5% to 3%, I'm just sitting next year by end, this is my preposition, FY22 Q4 interest rate I can take 3% compared to 5% of current year as for percentage of sale?

Aditya Rao: The interest cost of 3% as opposed to 5% we will, we have not said Q4 we have said it will come to 3%, 3.5% over the next couple of quarters.

Dilip Sahu: I margin saying Q4 of next year, FY22?

Aditya Rao: So obviously, yes. The answer is yes.

Dilip Sahu: Then our cash-to-cash will reduce from 100 days to 75 days?

Aditya Rao: That is correct sir.

Dilip Sahu: And we will have an asset turnover of 4 times it is just, it's not as you rightly said, we are holding on to you, but we are aspiration four times at a much higher profit as far as our US investment is concerned.

Aditya Rao: I just want to clarify, so the four times asset term refers to yearly revenue sir, so when you say in the quarter we will achieve that means we will achieve the run rate.

Dilip Sahu: I just have only one doubt, if you reduce your interest outlook from 5% to 3% because your working capital unit reduces from 75 to 75 days you will grow by 25% is an assumption. So, you won't release any working capital that way and you are going to invest 75 crore this year, 75 crores assuming next year under 50 crores of investment, and there could be cash flow from operation of around 150 crores because this year is not a great cash flow from operation. So, how will this 5% to 3% come because this will impact your profitability after tax by some 100%, 200% the next year?

Aditya Rao: So, in everything that you said only one thing sir, the 75 of investment is not from now, the vast majority of it has already happened. So, it won't be 150 it will be substantially less than that, entirely it has not gone out, but it won't be 150 for cash outflow as to how we will get from 5% to let me say 3% to 3.5% is what we had said so let me talk about that. Really, a lot of it is on how our revenue grows, we stock a certain amount of standard inventory, which we have, frankly for the last 8, 9 months as well. So, as we scale up our inventory days will go down, our revenue days will go down because the differential revenue that we add will be at a more efficient. So, how we will achieve 3% to 5% in terms of interest cost is if let us say we increase our current revenue base by let us say 25%. So that means that on a monthly basis, I am increasing by close to about 50 crores revenue. If, I cash-to-cash remains on 75 days, then I'm actually adding about a little over 2.5%, not even 3%, 3.5%, but if we take 3.5% as the interest that actually allows me to even sustain my operating cycle which is there right now at 100 days, and still achieve that for the differential amount about 3%. However, for us to get from 5 to 3, the increase in revenue will have to be at a substantially less than 3%. So that the average comes down to 3%, 3.5%. That we are definitely seeing through liquidation of our older, liquidation of our current inventory, ramp up of our current revenue and new revenue being added, a combination of all of those for us will indicate that we will have around 3%, 3.5% itself in terms of our interest cost. Accounts payable also can go away, we have not talked about that much. But in the last few months years JSW has and Tata's have tightened their ship. Raw material price have increased by 70%, we don't believe this kind of growth is sustainable, we believe that at some point it will correct as well, it has to because the last time this happened was 10 years ago. And we're not strangers to volatility and steel market. But our mapping for sustainable revenue indicates that if we were to achieve this 25% growth in revenue, which we're very confident of doing, then all of the numbers fall into place from a 3%, 3.5% point of view and PBT percentage also rises dramatically. So yes, in effect our profit would increase a lot. Right now our PBT is only 3, 3.4 crores that looks to our cash profit also is only 16 crores which is cash PBT, PBT plus depreciation, if we add 25 crores in revenue and it is a per month number, if we add 25 crores and revenue, if we add 30 crores in revenue for a month, per month if we were to add that, or even the 50, if we had that then that immediately means that all of our differential contribution and everything we're adding is a tie contribution. So, 12%, 13% of that comes into, so monthly cash PBT will increase from by 5 crores, 6 crores. So, our projects make sense, and you will see dramatic improvements in our bottom line as we increase revenue, and to 3% to 3.5%, quite frankly has to happen. We cannot, these businesses are not sustainable at 5, 6, 7% interest cost, frankly speaking. So we have to get that number down through combination of scale. And through liquidating anything which is slow moving.

Moderator: Thank you. We'll take one last question which is from the line of Vinit Jain an Individual Investor. Please go ahead.

Vinit Jain: The call got disconnected from my side. So my point was, since 4, 4.5 years, I'm an investor to this company and just that you are so ambitious. I'm also stick to this company. So since 2017, 18, 19, 20 I have met a couple of people over the call also. I've spoken to Krishna Prasad sir, I have spoken to Mirza, I have spoken to Bhakkad sir, Shrikant sir, and then last year in the month of November or October, November. I have also mailed to you personally on the email id of aditya@pennarindia.com, so I have not received the response over that. And the biggest point I want to make here is, I don't understand everyone is speaking about the like top line, bottom line, et cetera, et cetera. No one is speaking about the barriers to entry. I'm quite surprised. why is it so. Because in this business, whatever phase we are into, we have dominant players in this segment, and being a fully platform company, we have all the things which can be done within the company. And I don't believe if there is any single company in India, which has that particular platform. Still we are lagging behind, so I just wanted to understand what is the reason behind and also, I just want to spend some time with the management with you all personally so that I can understand what is the problem inside. Thank you sir.

Aditya Rao: Firstly, thank you. In terms of what you had said, I'll break it up into three pieces. One is your communication with us and the email that was sent to me. On that there can be no excuse, I will make sure that I look into it. I have two or three official email addresses, it is not a good excuse, but I will make sure that I communicate you an email address, which I use all the time. And if you can send your communications to me on that I can assure you a prompt response.

Regarding the barriers to entry, entry barriers for any business are critical. If you want to maintain long term margins in that vertical, what we try to achieve is two things, entry barriers in the current field can only come in through people knowledge or through CAPEX size. There is really no other and unless you're in investing a tremendous amount in R&D and technology, entry barriers of the nature you're talking about is in our view difficult to achieve. So we try to achieve a sort of entry barrier in a different way. We try to link all of our businesses together and we try to build a core competency. What is our core competency, our competency, our capability is basically in the field of metal processing technologies, metal engineering technologies? So whether that be roll forming, whether that be precession fabrication, whether that be fine blanking, whether that be hot stamping, which we have just added and also our RLPS and HPS capabilities. These are all capabilities that we add, which form part of one overall data, overall set that gives us the ability to differentiate ourselves from our competitors. So they may not be entry barriers, because capital has become far more easily accessible, quite frankly in some of our businesses where it looks on paper like someone can spend 50 lakhs and start competing with us. But actually that is not so, now if we do have this capability said why are we not seeing it in margins what has happened over the past few years is that, there has been greater-and-greater commodification of some of our business lines. We are now looking at rationalizing those business lines so we don't give them more capital. But over time, we believe that this gathering of our capabilities, packaging them in separate ways and focusing on relentless focus on metal processing technology, metal engineering technologies, design technology, manufacturing, project management technology, as it relates to that will give us we'll see as dividends, the vast majority of our revenue streams spring from this core capability. We will try to get a call today may be inadequate to give you a complete picture of this and also the questions you asked are quite good. You're welcome to join us; we would love the chance to do it. What I will request is, if you can give me your email address I will have, okay so my email address has been sent to you if you can forward your dates so when you would want to make the visit we will make it open to all of our investors as well. And we want to come in we can we would invite them to join and to discuss with our and all of our management will be made accessible to you to discuss specifics about our capabilities and on the long term viability of our revenue streams. Specifically barriers to entry, we can have a good discussion on that.

Moderator: Thank you. Ladies and gentlemen due to time constraints, that was the last question for today. I now hand the conference over to Mr. Vikram Suryavanshi for closing comments.

Vikram Suryavanshi: Okay, we thank the management of Pennar Industries Limited for giving us an opportunity to host the call and taking time out for the interaction with investors. Sir, do you have any closing comment or?

Aditya Rao: No thank you for hosting this Vikram and to PhillipCapital we are good to go. Thank you for the questions and we'll continue our outreach to our investors and make sure that we improve as well, nothing further sir.

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 line.