"Pennar Industries Limited Q2 FY2014 Results Conference Call"

November 07, 2013

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MODERATOR: **MR. AMIT KHURANA – CO-HEAD, EQUITIES & HEAD – RESEARCH, DOLAT CAPITAL**

Moderator Ladies and gentlemen good day and welcome to the Pennar Industries' Q2 FY14 Results Conference Call. Joining us on this call today are Mr. Aditya Rao – Executive Vice Chairman; Mr. Suhas Baxi – President & Chief Executive Officer; and Mr. Ravi Rajgopal – Vice President-Finance & Company Secretary. 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 this conference call please signal an operator by pressing * then 0 on your Touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Khurana – Co-Head, Equities and Head of Research of Dolat Capital. Thank you and over to you, Mr. Khurana.

Amit Khurana Thank you very much. On behalf of Dolat Capital I welcome you all to the second quarter earnings conference call for Pennar Industries. We have the senior management here with us and without much ado, I will pass it on to them. Over to you, Mr. Baxi.

Suhas Baxi Hello, Good afternoon everybody. I would like to start the conference call with a brief explanation of the results that we posted for the second quarter of FY14.

We reported gross sales of INR 274 crores for the consolidated company Pennar Industries. A net sales of INR 238.25 crores and EBITDA of INR 18.64 crores; a profit before tax of INR 9.48 crores and a profit after tax of INR 5.9 crores; cash profit of INR 10.68 crores. The performance of the company on the turnover basis posted a small drop vis-à-vis the last quarter which is June 2013. However, at EBITDA level, we have posted a small gain. We do believe that this gain despite of a drop in turnover is a very positive signal for the company because the gains in EBITDA was achieved through improved operating efficiencies and these improved operating efficiencies were primarily a result of we being in a position to work on a number of projects which were directed towards fixed cost and variable cost of production. The trend hence with respect to a controlled fixed cost and a controlled variable cost of production is expected to continue and hence we do believe that going forward we have achieved something which is a sustainable costing system for the company.

As far as the turnover growth is concerned although we have posted a lower-than-last-quarter turnover, the quarter saw extremely good order entries and this order entry has primarily come from some seasonal segments of the business like the solar industry and the railways. Similarly, our subsidiary company Pennar Engineered Building Systems and the new subsidiary company Pennar Enviro also saw excellent order entries. So, we enter quarter three with a very solid order book and hence the chances of near term growth as far as turnover is concerned for the company are very good. The balance sheet of the company continues to be strong and the strength of this balance sheet hence allows us to continue to look at growth initiatives in a very, very positive light. The investment that we have made in the hydraulics business buying the assets of the hydraulics company Pennar Wayne-Burt Petrochemicals in Chennai and our decision to invest in the growth of that business is something which we are able to strongly support based on the strength of our balance sheet. Similarly, the other initiatives which are again focused on forward integration in most of our businesses continue to be something that the management supports. In light of this we do believe that when some of the industry segments that we are doing business with will see a positive upliftment in their turnover growth and in their production cycles we will be able to catch on that impact much faster and we will be able to post a robust growth in the future. So I think in short I do believe that the quarter 2 on the face of it though it looks to be a quarter where the turnover dropped a positive impact on margins vis-à-vis the last quarter and a continued focus on investments is something which is a positive news for the company and that is what I would want to begin this conference call with. I would like to handover the forum to my colleague Aditya who will also give you an insight in to what happened during the quarter for our subsidiary companies Pennar Engineered Building Systems and Pennar Enviro.

Aditya Rao Thank you Suhas. Belated Diwali and a warm welcome to all our stakeholders in Pennar Industries and welcome to the quarterly conference call for Pennar Industries. As you would know Pennar Industries has two subsidiaries, Pennar Engineered Building Systems and Pennar Enviro. PEBS as Pennar Engineered Building Systems is abbreviated is in the business of custom design building systems. PEBS had a good quarter and a good Q2. They booked orders in excess of INR 110 crores which brings the order book up to INR 310 crores. We booked revenues of about INR 81 crores and a PAT of about INR 3 crores. The orders we had booked include orders from Larsen & Toubro., Schindler, a Spanish company Inspira Martifer which is our first large scale order in solar and orders in RCC Infra; orders from Sobha Developers, Ashirvad Pipes and others. In addition to that PEBS also received the Contractor of The Year Award from Construction Week India and was the runner up for the Infrastructure Company of the Year Award. As far as Pennar Enviro is concerned, Pennar Enviro is a newer subsidiary that is in the business of industrial water and waste water treatment, specialty chemical manufacturing and treatment services. PEL has just commenced commercial operations but we were able to scale the order booking in very quickly over the course of last quarter and our open order book orders which have been booked is stands at about INR 14.5 crores virtually all of which will be executed this financial year. Orders that we book in Q3 will only be partially executed we expect. As we move Pennar Enviro to becoming a more robust subsidiary we expect to scale order book and growth further in this business.

With that I would like to hand it over to Suhas for further comments and I will have further comments on the subsidiaries and answers to any questions you have as well.

Suhas Baxi Most definitely. Thank you Aditya. I would actually want to go through the presentation that we have posted for our financial performance for quarter 2 and would want to start with the quarter performance highlights in terms of segment performance. So this is Slide #7. And this slide essentially talks about how different segments of our business did during this quarter. The first and the bigger segment in the company is the steel products segment. In the steel products segment we saw revenue of INR 102 crores as compared to INR 118 crores in the earlier quarter. However, the positive news here is that despite of a drop in revenue the margins in this business improved from 5.2% to 6.6% and we do believe that the biggest impact of operating efficiencies has been achieved in our steel products business.

The drop in revenue is on account of the fact that commercial vehicles business which is contributing approximately 35% of the revenue in steel products has seen a very tepid second quarter. Some of our key customers continue to see depressed demand and hence either are consuming from their inventory or running their factories at lower rates and that has impacted this quarter for the steel products business unit. We do believe that the growth in this business unit would happen based on initiatives that we have taken in infrastructure segment through new products introduction and in general engineering segments through new product introduction. So we do see that probably the quarter 2 of 2014 would have kind of indicated a bottom as far as turnover for this business unit is concerned.

The second graph that we have there is that of industrial components and the business of industrial components saw a sharp decline from INR 18.4 crores in the first quarter of the year to INR 11.9 crores. The reason behind this sharp decline is one of the customer segments which is the white goods customer segment had certain technical difficulties with respect to their production in the quarter 2 which would actually be on account of certain export constraints that they had. So we do think it is a blip and going forward in quarter 3 there would be a good recovery in the turnover here. We have maintained margins despite of a drop in turnover which I think again is a good positive sign.

The business of tubes which is the third graph continues to show a steady trend in turnover. We have done a turnover of INR 30.3 crores. However, we have seen a drop in margins here. We have seen a drop in margins from 5.8% to 4.8%. The reason for drop in margin in tubes business is driven by the fact that we have a continued effort in new product development and new customer acquisition. As this stabilize in this process we do believe that the margins will go up while the turnover is definitely expected to stay steady and even grow. The fourth graph there is that of Systems & Projects where we maintained steady revenue from INR 23.6 crores we grew to INR 25.8 crores. From a turnover point of view we do believe that the growth story for the next quarters will come from our Systems & Projects business because that is where we have got a very solid order book. We have an order book of INR 80 crores right now in Systems & Projects business against quarterly revenue of INR 25 crores.

A typical lead time for this business in terms of between order and delivery is approximately a quarter. So we do believe that quarter 3 would be a robust growth for Systems & Projects business. The good news once again here is on margins. We have improved our margins from 8.2% to 11.7%. The last graph is on Pre-Engineered Building Systems where the turnover remains steady at around INR 70 crores and the margins marginally improved from 8.8% to 9%.

The next slide which is Slide #8 is giving a picture of who were the new customers and which were the new projects that we were able to acquire during the last quarter. I would want to focus attention on the second box which is there which is Systems and Projects where we have names like Tata International, Solon, AEG and East Central Railway figuring in the companies with whom we have started doing business and we do believe that based on the plans that these companies have firstly in solar and in case of East Central Railway we engaged with we have a good chance of growth in Systems and Projects business. The newest member there which is

Pennar Enviro has seen an extremely good order entry for the quarter and once again the customers who reposed faith in us which is L&T Metro, UB, Goodyear, Ranbaxy, Cummins these are customers who have definitely selected us based on a very strong due diligence process and though we are one of the newest entrants in this field the fact that names like Cummins and Ranbaxy and L&T have reposed faith in us it is a sign of the trust that they have on Pennar Industries even in its new business.

I would like to move to Slide #9 and the Slide #9 is essentially tells a story about what is the impact of the auto segment on our steel products business and as I have said at the beginning of the call it is a drop in commercial vehicle segment has impacted the volumes in this industry however, you would also notice from the graph which is there is on this slide that our business in general engineering and our business in infrastructure it is seeing a volume growth and this is on account of the fact that we have been able to acquire new customers; we have been able to introduce some new profiles and some new products and I think that is what we count on as we move forward in this business. We do want to make this business not dependent on fortunes of one or two industrial segments and that is what our effort is.

Moving forward to the next slide which is the slide on Industrial Components I would want to share with the investors and the analysts here that in the past the business of Industrial Components has been a small business for Pennar has been done with approximately eight customers and two products segments. The plans for 2014 and going forward is a plan which is around doubling the number of customers and also increasing the number of product lines. Some of our biggest growth initiatives including the business of hydraulics are in the industrial component segment and I think here we are probably on the cusp of some I would not say breakthrough kind of growth but I would say the volume increase that we would see in industrial components segments would be the most significant from a point of view of the base size that it currently has and this business unit is clearly looking at growth prospects which are within our grasp and are doable in a matter of approximately one year.

There is also a slide which is Slide #11 which gives the information on the acquisition of assets that we have recently undertaken that is at Wayne Burt Petro Chemicals. Our plan in the area of hydraulics is to focus on hydraulic cylinders where we do believe that there is an opportunity for company like Pennar to not only make inroads but establish a good enough size of business. The strength that we have acquired along with the assets is too strong customer relationships. We have customer relationship with Bailey Hydraulics in USA and we have customer relationship with BEML in India. So given the fact that there is an existing export business opportunity which comes along with this acquisition and given the fact that there is a very strong relationship with BEML which comes with this acquisition I think in a very small way we have already entered in to hydraulic segment. Going forward we have a plan to make small investments in sprucing up of the manufacturing and obviously undertake aggressive market development. We have already started meeting customers across the segments and the response that we have received is very positive. So I think I do believe that along with Pennar Enviro the hydraulics business of Pennar is something which is what we would be focusing on from a point of view of achieving future growth.

The business of tubes which is Slide #12 had seen steady rise in turnover on a quarter-to-quarter basis also on a year-on-year basis and I think from a turnover growth point of view this has probably been one of the biggest contributors to Pennar Industries this year. The growth achieved in tubes business has somehow not been able to mitigate the drop in revenues that we have seen in some other segments but we do believe that this growth on a standalone basis is important for Pennar and as we start adding complexity in products to what we service our customer base with we are getting in to more of precision tubes business which will be more on profitability and hence we do believe that the future of this business once again is fairly secured.

I would as I said in the initial parts of the call the business of Systems and Projects which is captured in Slide #13 is a business which is seen robust order entries in the second quarter of the year based on the back of this order entry we do believe that we have a good chance of growth in quarter 3 and quarter 4. Last but not the least the order entry in quarter 3 is expected to be once again strong because we have already qualified for some of the tenders in this business. So once again Systems and Projects in my view is an area that Pennar would bank on as far as growth in quarter 3 and quarter 4 is concerned.

Aditya, would you want to probably take a little more time in explaining the PEBS and the Pennar Enviro business once again?

Aditya Rao Sure. Thank you, Suhas. As mentioned previously PEBS has had a good order booking quarter about INR 110 crores of orders have been booked. These include for Larsen & Toubro a workshop building near Nagpur, Maharashtra. The total area of this building is about 4,000 square feet. We have received an order from L&T Valves by its consultant L&T for a valve manufacturing unit at Sri City in Andhra Pradesh. The total area of the building is about 4,500 square meters. We have received repeat orders from Gland Pharma for a warehouse building in Andhra Pradesh again. The total area of the building is 4,500 square meters.

In a first of its kind, we have received a complete turnkey engineering design procurement and site driven and site execution order for Solar Module Mounting Structures from Inspira Martifer to execute about 29.25 megawatts of projects located in Orissa, Tamil Nadu and Bihar. The services that PEBS provides for this order will include design, manufacture, supply and installation of Solar Module Mounting Structures. We have also received an order from CSD Projects for a factory building for its end user MMD Heavy Machinery India Private Limited. This is near Tada. We have received orders from Premier Solar Energy Private Limited for 3 megawatts of solar projects for the same projects Solar Module Mounting Structures and one of these orders were also as an export order.

We have received an order from Balaji Produce Company for a warehouse building for its end user Wildcraft and this is near Bangalore in Karnataka. Coming to Pennar Enviro as mentioned Pennar Enviro has had a aggressive order booking while it is still early days for this subsidiary the beginning it has made is heartwarming and it has very quickly been able to book orders from Larsen & Toubro for Hyderabad Metro for the design and supply of our uniquely designed packaged STP plant what we call a Bio Toilet. We have commissioned one unit already and three more units are under execution and in fact in this month we are expect to receive a follow up order of six more of these units.

We have received orders from Amtek Auto for the Design, Supply, Erection and Commissioning of an Effluent Treatment Plant. This is a Zero Liquid Discharge ETP plant for their auto ancillary. This project is currently under execution. We have received an order from Chowgule Ports & Infrastructure Limited for Design, Supply, Erection, and Commissioning of one of their STP plants and two ETP plants for their port activity. We have also received from Hetero Drugs an order for the Design, Supply, Erection and Commissioning of a two MLDC water desal plant. And lastly a large Effluent Treatment Plant in Tirupur for Park CETP. Again the Design, Supply, Erection and Commissioning of a 125 meter cubed per hour Textile Effluent Treatment Plant. This project too is under commissioning.

Going forward for Q3 we expect PEBS's growth to continue. We have seen a scale up on the back of our order book and an order for the monsoon malaise is passed so lot of our order book is now translating in to order so we fully expect the next quarter to be very good. Definitely better than the corresponding quarter of Q3 last year and for Pennar Enviro a lot of these orders that have been booked will now start translating in to revenue and our efforts to further increase our order book further increase our addressable market size continue and Pennar Enviro expects orders from several Pharma, construction and infrastructure companies in the next two, three months.

With that I would like to hand it back to Suhas for further comments.

Suhas Baxi Thank you very much Aditya. I think we have more or less covered the information that we wanted to provide on the performance of various segments of the business. I would want to end the call while focusing on Slide #16 which is there in the presentation which essentially list the initiatives that the company is taking as far as investment in growth drivers is concern so you would see there that hydraulics has clearly an area where we have very solid plans for achieving growth. We are also investing in making a component factory in Chennai being in a position to be an export oriented units as far as automotive components are concerned. We have been working on trial orders for wind energy components. We have a plan to expand the tubes manufacturing facility in Hyderabad to improve the products range that we have so that we can achieve an all-round growth. We have received very, very encouraging response from some of the international business initiative that we have taken and last but not the least we are focused on creating a new product line in the area of warehousing solutions using current competency of Pennar in manufacturing of cold rolled structures and fabrication. So clearly we are moving forward with a growth plan focused on achieving medium term revenue growth and once again not for the sake of repeating but for the sake of highlighting the strength that Pennar has I think even in times of depressed turnover our balance sheet is strong enough to support our growth initiatives.

Thank you very much and we would like to now open the forum for any questions that you may have.

Moderator Thank you. Ladies and gentlemen we will now begin the Question & Answer Session. First question is from the line of Abhijeet Vora from Unifi Capital. Please go ahead.

Abhijeet Vora I have two questions. First one is on the recent acquisition this Wayne-Burt Petrochemicals. What was the consideration paid? That is the first part of the first question. And then also I wanted to understand the size of the acquisition in terms of revenue EBITDA PAT how much this particular asset had recorded in FY13 as well as in H1FY14? And by when it will be EPS operative in the sense it will be PAT positive to Pennar Industries?

Suhas Baxi Yes, I would like to answer your question point-by-point. The first question that you had was what was the consideration applicable for the acquisition? We have essentially acquired assets, okay? The assets were of two types. Number one, the assets included plant & machinery for manufacture of hydraulic cylinders a capacity of 225,000 cylinders per annum. And the second is ownership of intellectual property which included 45 different types of cylinders and 45 different types of hydraulic systems. So the combined price for these two assets which was paid is INR 10 crores and in addition to these we have taken over the engineering team that the company had and the technical team that the company had in manufacturing. So that is what we have acquired from the original owners of the business. The size of this business for the last financial year that the company completed they had done a turnover of INR 22 crores and they have been making gross profits at an industry average. The industry average of gross profit in this business is approximately 30%.

Abhijeet Vora When does the impact of this acquisition from a turnover hit Pennar Industries?

Suhas Baxi During the second half of the year we do expect that we would be doing a turnover based on hydraulic business which would in the range of INR 6 crores to INR 8 crores so I do not believe substantial addition will happen in the second half. We do believe that in the financial year 2014-15 we would be doing a turnover in the range of INR 30 crores to INR 35 crores in the hydraulics business and I think that is. So the full impact of the acquisition in terms of turnover margins EBITDA and EPS would be felt in the year 2014-15. I hope this answers all the questions that you asked?

Abhijeet Vora Yes, thanks**.** Second question is in terms of earlier guidance you had given after Q2 in terms of top-line it was around INR 1400 crores to INR 1500 crores and then EBITDA of INR 150 crores. Q2 performance where the second half of the year what will be the outlook and then how is the guidance getting revised?

Suhas Baxi I think at this stage we are not wanting to give a guidance which would be specific in terms of number, I do not believe that we had given a specific guidance even at the end of quarter one though I think at point in time in the past even there was a question with respect to what the budget that the company is working on I think there was a number indicated and that was probably on the last-to-last conference call. I do believe at this stage we have seen performance in quarter 1 and quarter 2 which was less than anticipated level of performance. We have explained in the initial part of the call we do have a very robust entry and order book for the project based businesses that we do I mean as you know the business of Pennar Industries can be broadly divided in to two types of businesses, project business and schedule business. So we have a very strong order book position in the project business segment of the company. As far as this schedule business is concerned we have a high level of dependence on automotive industry and given the fact that the commercial vehicle segment in the automotive industry is not even now seeing signs of recovery. We would be very guarded in terms of indicating any kind of number. However, we would want to clearly state that we do believe that in most of our businesses the bottom is behind us and that we have good chance of growth. We have achieved a point where even at a low level of turnover the company margins has been reasonably strong and I think as the turnover increases the margin performance would continue to get better. I think to that extent we can take it.

Abhijeet Vora One more question if I may. If I look at the first half of FY14 performance compared to FY13 margins are certainly come down. Sequentially I agree with you that margins have remained similar even picked up in couple of divisions but year-on-year it is down and because of this what is happening is even though your top-line decline is just 10%, your profit declines are much more to the extent of 40% to 45%. So again for H2 in terms of outlook for margins compared to last year margins I wanted to get what you are seeing and whether for the full year profit decline will be arrested? Can we look at year-on-year growth for H2?

Suhas Baxi Well, I think I would attempt an answer to this question as an approach, okay? If you see and because you have been looking at the company's performance on a quarter-on-quarter basis you would start seeing that the company started investing in a robust sales and marketing infrastructure from quarter 3 of last year. This was aimed at achieving growth expanding markets and this was aimed at achieving a diversity of customer segment profiles. Okay now I think that has stated yielding results in terms of we have achieved the necessary diversity. What probably has happened is that the conventional bread and butter segments of Pennar which are Railways and Automotive have not seen anything noteworthy as far as their demand is concerned. Now once again going back to the earlier statement that we made the investments that we made in the sales and marketing infrastructure the new product development infrastructure which increased the cost base of the company that has now started yielding results and we now see a robust order booking segments which are these new segments, okay? As the turnover grows the profitability would definitely go back to what used to be the profitability of the company in the past.

So the profitability impact that you see is primarily on account of top-line reductions. As the top-line goes to a level which used to be in the past the margin in terms of percentages also will be similar to what they were there in the past.

Abhijeet Vora Before getting back into the queue, I wanted to congratulate the management team for revenue generation from new customers as well as new products. I think there on that particular aspect you are on track whatever milestone you had 10% if I remember correctly is the revenue you want to target from new customers and new products. So that is on track for last quarter as well as Q1 and Q2. So on that regard I want to congratulate.

Moderator Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain This was related to first of all if you can tell me the debt level of the company, how much is the current debt in parent company and subsidiary?

Aditya Rao For the parent company our term debt levels are negligible. I think we have not raised a debt in a while. We do reserve the right of course raised debt by the finance strategic acquisitions but no change as of from last quarter in terms of debt. As far as subsidiaries are concerned they are both debt free. PEBS used to have a debt of about INR 20 crores which has been repaid through a combination of cash accrual and some equity expansions. So all three company are essentially debt free and the term debt cumulative which is there is would probably among all three companies have probably amount of about INR 15 crores.

Sunil Jain INR 15 crores is the total debt in all three, that is the term debt but is there any working capital apart from this?

Aditya Rao Absolutely. I think Pennar Industries uses working capital of about INR 90 crores which is more or less stay at constant. PEBS has cash credit LC and BG usage. I would recommend that you take BG separately because BG is an instrument which is not supposed to convert and has never converted in our history and owing to the nature of our business model BG do scale as you complete more and more projects and it scales the revenue the BG that use will increase. So I will say the CC usage for PEBS the cash credit usage working capital is about INR 17 crores and the LC usage is about INR 25 crores to INR 30 crores. It is variable depending on obviously varies on a month-to-month basis. Pennar Enviro is a new company and typically in the water treatment industry it is industrial water and waste water at least is negative working capital. So while we still are using some working capital because we are a new entrant to this business we expect that to come down. The working capital debt levels in Pennar Enviro in the range of about INR 1.5 crores.

Sunil Jain And about this tube business if we see the other industry player they are facing quite a strain in this particular sector whereas you are able to comparatively fair well as compared to other players How is you are differently playing this particular sector if you can explain some or where you are different from the other industry players?

Suhas Baxi I think that is a good question. We would generally divide the business of tubes and industrial tubes in to two parts. What we call as the ERW tubes and what we call as CDW or precision tubes. Our focus is primarily on doing direct business with the end customers If you see that whatever business that we do in both the segments the ERW segment and the CDW segment we are typically doing a direct business with the customers so we have got large customers like let us say Thermax in ERW and Gabriel in CDW as our customer account. So our customers are relatively healthy in terms of what they are doing their business. That is point number one.

Point number two is somewhere down the line our focus is to make tubes for high-end applications. We are not wanting to get in to generic application of tubes. So we are not in to let us say tubes for lot of construction projects which is essentially a commodity business. So our tubes is essentially more of an engineered product business than commodity business. So I think that is where we are probably different than many other tube companies. Third I think somewhere down the line being the new player in the industry, we do bring in certain processes which are very well-defined in terms of quality management, in terms of ability to handle, custom specifications, etc., which is good for the size of customers that we are focused on. So I think combination of these three factors together has allowed us to do a decent job.

I would still not say we are happy with the margins that we do in this business but we do believe that there is a solid base for doing better margins because a lot of work that we are currently doing being a new player is that related to the new products development, and hence smaller volumes for every order, etc. So we are pretty confident that going forward our volume as well as margins in this business will actually rise.

Sunil Jain One more question related to Systems and Projects business where you had said that your order book is INR 80 crores if I am correct?

Suhas Baxi Yes.

Sunil Jain This includes I think the Railway business. So you are seeing some revival in the Railway business?

Suhas Baxi The way we have now approached the Railway's business is if you go back to the past and I think Railways and Pennar is one question which always comes back from the analysts. See our business with Railways in the past which was very big was driven by large scale procurement that the Government was doing for Railway wagons. And we were one of the primary suppliers of the steel required for manufacture of Railway wagons. Now that part of the business has so far not seen any revival. In fact the Government of India tender for procurement of wagons is expected to open later part of Q3. So in this entire financial year there has been no procurement from Government of India as far as Railway wagons are concerned. So where do we see the growth coming from and where do we see the positive light at the end of the tunnel is we kind of moved our product mix which was from wagon heavy to start working on Railway coaches. 30% of our business in the past used to come from Railway coaches and 70% used to come from wagons. If you look at this financial year more than 85% of our business will come from Railway coaches. And this has happened on account of the fact that we were able to develop many more products for Railway coaches. We were able to acquire more customers in the area of Railway coaches. So also was one more thing which is important here is Railway coaches is a much more stable and predictable business than Railways wagons because railway wagons is driven by Government's tendering process while Railway coaches is primarily in the PSU domain which is driven by the regular requirement that they have.

Now given the fact that there is a constant visibility of demand that you see in railway coaches I think we have now come to a stable platform for doing business in Railways. Whenever a good tender from wagons hits you would see a sharp rise but what we would be able to do going forward is to maintain a steady base and treat the wagons business more like a project business. So I think that is what has started happening and I think this did require effort over the last couple of quarters for making sure that we have the right kind of products, right kind of quality systems to satisfy the Railway coaches.

The second thing which was happened is I think we have been able to have a good breakthrough in Metro Railways. See because our focus was on wagons and wagons by very nature are more of volumes systems rather than high quality product systems. We were geared up for satisfying a volume demand. As we have shifted focus to lower volumes but high quality we started doing business with manufacturers of coaches for metro systems which again is a business which has good visibility. So I think these two put together has probably put back the Railways on a radar for us. But it is not really driven by external factors. It was completely driven by what we could do within the company.

While we are waiting for more questions, there is one more piece of information which I thought which would be critical from a point of view of your understanding what is happening at Pennar. We have also invested in setting up a 2.5 megawatt capacity solar power plant. The work on the solar power plant is right now going on at the desired pace and we do expect that sometime in the fourth quarter of the financial year the solar power plant will start producing electricity and we will start getting electricity from this solar power plant. We do believe that this is very, very interesting step for the company because a 2.5 megawatt solar power plant has an ability to have a good impact on profitability of the company.

Moderator Our next question is from the line of Abhijeet Vora from Unifi Capital. Please go ahead.

Abhijeet Vora I have some follow up questions. Firstly, what are your CAPEX plans for FY14 and FY15 in terms of amount as well as if you can also give the details of the facilities which you are planning to set up and when they will start contributing to revenue?

Suhas Baxi The way we are managing our CAPEX is we are clearly managing our CAPEX based on our ability to fund the CAPEX from the positive cash flow which are being generated. So what we have is an in-principle direction on where would we be spending as far our capital expenditure is concerned and the in-principle spending is clearly pointed out in the last slide that I covered in our presentation which is Slide #16 which is clearly we have a focus on creating an engineering enterprise. We would want to have a distribution of turnover in the company where 50% of the turnover comes from what has clearly seen as an engineered products and engineered systems over the next three years period. And what is outlined there is component facility in Chennai; hydraulics business, expansion in tubes manufacturing facility, warehousing solutions which would consists of industrial packing, and material handling and these are the four areas I would say there is CAPEX which is planned to be spent based on what our future plans are. There is certain amount of CAPEX like, for example, I talked about the solar power plant so there is certain amount of CAPEX which is dedicated to making our operations efficient. And there is certain amount of CAPEX which is dedicated to making our operations more modern. I think this is the broad outlay that we have in terms of direction and we have a range in terms of timeline where we would be affecting it. None of this CAPEX is in a way are at a stage where we would say if we do not undertake let us say x or y or z it will have a big impact on what we are able to do in the future and I will bring you back to what are the existing manufacturing competencies of Pennar.

Now Pennar has a fairly large in fact one of the largest in India as far as steel processing capacity is concerned. Now the challenge for us is not really in terms of making new capital expansion but the challenge is reshaping the current capacity to start producing for what are our new business ideas and new business plans. So we said we will expand in to auto components business. Now that is not really going to require a large scale capital expansion because we have a plant in Chennai on a 35 acre piece of land which is already having a dedicated auto component facility. What we would require there is addition of certain machinery and that certain machinery is not CAPEX heavy. So the big capital investment which most companies would require when they get in to new businesses is acquire land, set up buildings, etc., that takes us a fairly large portion of the entire CAPEX outlays. For Pennar that is already happened. So for us it is now so if I say we are going to setup a line for producing warehouse systems which is essentially storage solutions and raking solutions 90% of what is required for manufacturing exists. And there is incremental CAPEX required for doing things which from a manufacturing process point of view does not exists. So if you put all of these together and say hence what does it translate to in terms of capital expenditure plan I would say this year we would end up spending between INR 30 crores and INR 40 crores out of which 50% is on solar power plant and the balance 50% is towards creating incremental facilities for the new businesses that we are talking about some modernization and some operating efficiencies. And I think this level of capital expenditure we have a liability to support through our operating cash flows.

Abhijeet Vora Can you throw some light on the ramp up in exports?

Suhas Baxi Our focus is at two ends. One is there is a very good opportunity for our Engineered Building Systems business to do business in other developing counties and there are pregnant opportunities as far as that is concerned and the second is becoming part of global supply chain for a number of auto component companies, number of construction equipment companies, and also a number of companies especially in United States and Europe in the area of infrastructure and security solutions business. So I think we hence have a two strong strategies one of it is driven by exports that can be achieved in our engineering building systems business and second is driven by ability to become part of global supply chain for automotive construction equipments and infrastructure companies. We have seen early success and when I say early success we are right now working on trial orders from at least three companies and these trial orders if successfully executed can open possibilities for doing approximately INR 50 crores export revenue next year that is 2014-15.

Moderator Thank you. As there are no further questions I now hand the conference over to Mr. Suhas Baxi for closing comments.

Suhas Baxi Thank you very much everybody for being on the call today and some of the questions which came up were quite detailed and I am sure we were able to provide enough information for you to understand the financial results announced for quarter two and also what the company's plans are. I wish to thank you once again and wish everybody a wonderful day today and a wonderful rest of the quarter. Thank you very much.

Moderator Thank you. Ladies and gentlemen on behalf of Pennar Industries that concludes this conference call. Thank you for joining us and you may now disconnect your line.

This document has been edited for readability.