"Pennar Industries Q3 FY16 Earnings Conference Call"

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MODERATOR: **MR. AMIT PUROHIT - RESEARCH ANALYST - CONSUMER, DOLAT CAPITAL MARKETS PVT. LTD.**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Pennar Industries's Q3 FY16 Earnings Conference Call hosted by Dolat Capital Markets. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Purohit from Dolat Capital. Thank you and over to you, sir.

Amit Purohit: Good morning, Ladies and Gentlemen. We welcome you all on behalf of Dolat Capital to the Q3 FY16 Earnings Call with the Senior Management of Pennar Industry. From the management we have Mr. Aditya Rao – Vice Chairman and Mr. Krishna Prasad – CFO. I would like to hand over the call to Mr. Aditya Rao for his initial comments after which we would move on to question-and-answer session. Over to you, sir.

Aditya Rao: Thank you. It gives me great pleasure to be with you on the quarterly conference call for Pennar Industries for third quarter. For the quarter in question, we have had considering market conditions, we believe excellent performance, we were able to grow on most of our product categories, the consolidated growth sales and standalone sales for the company have also grown and the subsidiaries have specially done really well which has also resulted in good growth of EPS and net profit as well.

From a consolidated point of view, we recorded gross sales of 384.4 crores as opposed to 349.1 crores for the corresponding period last year, which was a growth of about 10.1%. EBITDA grew to 38.3 crores as opposed to 25.7 crores which is a 49% growth and the net profit grew to 12.6 crores as opposed to 6.9 crores which is an 81.7% growth. The basic EPS for the company is Rs.1.05 as opposed to Rs.0.58 last year.

The standalone performance of the company has also been good with gross sales of 252.8 crores as opposed to 235.1 crores for the corresponding quarter last year. Our EBITDA was 20.4 crores as opposed to 16.2 crores, which is growth of about 26.3% and the net profit of the company was 7.6 crores over 4.9 crores which is a growth of 56.2%.

Specifically speaking, this was a very good quarter for our Systems and Projects business which was our Railways Coach business, our Railway Wagon business and also our Solar business which did exceedingly well this quarter. Our Industrial Components business and our

Commodity Steel businesses under performed with a de-growth in revenues. Our Steel business only had 77.3 crores of revenue as opposed to 99 crores of revenue last year, a de-growth of 22% and our Industrial Components declined to 12.6 crores from 15.7 crores, which is a decline of 20% approximately. Our Tubes business had relatively flattish growth with a total sales of 33.9 crores as opposed to 32.8 crores. Our subsidiary, Pennar Enviro has done exceedingly well with gross sales of 30.06 crores for the quarter as opposed to7.27 crores for the third quarter last year which is a growth of almost over 300%. EBITDA margins have also sprung up which is more of a scale effect because the orders that we have taken, extra revenue has now started resulting in EBITDA margin increases and EBITDA increases. And the profit after tax also for the company was at 1.86 crores, at a PAT of 6.33%.

For the six business units, four out of our six business units grew. The business units which did not grow are Steel Products business unit and our Industrial Components, but the other four showed good growth, Tubes was flattish but every other business division had a very good growth in terms of EBITDA and profitability and we expect that from their performances right now we expect this growth trajectory to continue and even the business where there has been de-growth we believe that we will be able to bring in further growth in the next quarter, primarily because in our special grade CR project CAPEX has been completed for that and we are seeing increase will start coming in. Our industrial components business also is projecting growth in this quarter. So hopefully we come back to you next quarter with gross across all divisions as opposed to four out of six. But we are quite happy considering market conditions with the performance of the division and what has grown has grown very well.

With that, I would like to hand it over for questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal: Two questions, could you help me understand both the steel products and the industrial components decline, how much of this is price versus volume?

Aditya Rao: It is entirely, or the majority of it is price driven. The Steel Products business comprises of what we call CRSS and CRFS, cold rolled steel strips and cold rolled formed sections, so this is the legacy business of the company, it is the business which has traditionally been low margin, traditionally had difficulties with scale and consequently what we see happening with the global steel prices, that has had an impact on this business division. If you recall, in our last conference call, these are not the businesses we really focus on growing, we want them to sustain revenue, but that being said, a 20% decline approximately in terms of revenue is not something we are very happy with. But if you were to look at it from EBITDA point of view, we were able to control the decline somewhat so that the EBITDA decline was only about 14% for industrial components. So we did not pass through the entire steel price decrease. So we have had declines, yes in these two business divisions, but with our new special grade CR project coming online we believe at least in steel products, it will immediately reverse. And for Industrial Components, it is a very cyclical business and from the base we had last year, for the overall year we are still projecting and increase and we think even Q4 should ensure that we get back to growth path on these businesses. Sorry, you had asked for description of Industrial Components too?

Ashwini Agarwal: Yes.

Aditya Rao: Industrial Components is our essentially targeted at white goods engineering and automotive customers. What we make are a wide variety of pressed, fine blank, engineered components and also hydraulic cylinders for customers who are primarily in the white goods engineering space and automotive space.

Ashwini Agarwal: My second question, and it is a question that I am struggling to paraphrase correctly, but what I want to understand is that we have seen a reasonable pick up in margins on a consolidated basis and margins have been pretty stable on the standalone side as well compared to the September quarter and handsome increase over December quarter last year. Now is some of this margin pickup due to fixed price contracts where raw material inputs for you fell and you were able to capture that expansion in margins, but going forward that may not be there. Is some of the margin increase due to that or do you believe that whatever we are seeing in terms of numbers is a result of conscious business strategy and product mix changes and this is sustainable?

Aditya Rao: The truth is, it is because of both, but primarily driven not my raw material price decreases, primarily because the revenue mix has completely changed, Systems and Projects were highest margin business, Railways Coaches are highest margin business and we have scaled tremendously in terms of revenue and profitability, we have nearly doubled revenue in that business. So that has had a very powerful impact on margins, but in a sense we are a perfect pass through of whatever whenever steel prices go up we have to immediately pass through our customers and when they go down we had to immediately pass that too. And when I talk about this I am talking about the standalone entity, PEBS works a little differently, but for PIL we are a perfect pass through. So when we look at what has happened in the last quarter or last couple of quarters, these margin increases that you see are to my extent 90% sustainable. Further growth also is possible if the rate of growth in Systems and Projects persists, we have full order books in Railways Coaches, we have full order books in our Solar businesses, I would not project a margin decrease for the next few quarters in any of our businesses.

Ashwini Agarwal: And one last quick question, could you tell me the order book amount for Railways and for Solar please?

Aditya Rao: Railways is about 120 crores, that is for entirely coaches, we are looking for to some wagon orders but unfortunately the news has been extremely disappointing, but coaches has surprised on the positive side and we are very happy with what has been achieved. And on the Solar side, our total order book right now which we typically only take about a quarter in Pennar Industries, the total order book for Solar stands at about close to about 200 crores.

Moderator: Thank you. Our next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Just to extend the same question, Solar you said our order is 200 crores, is that right?

Aditya Rao: 200 crores combined with PIL and PEBS, both have solar revenues which are separate from each other, PEBS provides solar systems, module mounting systems and PIL provides for our components and the customer set is also widely different. But if you combine both of them, yes we have about this quarter plus the next operating cycle of over 200 crores, yes.

Vikram Suryavanshi: Because what number I have for standalone was I think 70 crores last quarter.

Aditya Rao: Correct, it has increased by a lot, standalone 70 has become close to about 140, I think it is about 65 crores or 70 crores for PEBS.

Vikram Suryavanshi: Because that is why I just wanted to cross check. And even for Environment, can you order book?

Aditya Rao: Enviro order book is very high, it is about 380 crores.

Vikram Suryavanshi: So probably we can see further huge scale up probably in Environment because if we look at the gap between order book and what we do on quarterly basis, still that incurs a lot more than….

Aditya Rao: Absolutely, I think we have tried to ensure that we are not flying off the handle with Enviro, Enviro is currently growing at a 300% growth rate, it is a low base so obviously we are going to have actually high number. But even if you were to look at what has happened, in this quarter we did about 30 crores in gross sales and all of last year was 30 crores, so we have actually exceeded the entire last year sales and we expect next quarter to even better and next year to be even better. So yes, so this large order book is resulting in Pennar Enviro's revenue scaling up.

Vikram Suryavanshi: And basically our new capacity for value added steel which we have started, how much we can expect from that or will it contribute from this quarter or from next quarter?

Aditya Rao: It has started contributing from this quarter, I think essentially what we have done is add auto gauge capabilities along with enhanced CR slitting and a completely new hydrogen annealing line. We believe it will add over 100 crores in revenue next year.

Vikram Suryavanshi: And how is the response from our Hydraulics business basically?

Aditya Rao: Hydraulics business has been more difficult to ramp up considering that our customers are primarily construction equipment and engineering companies and we are trying to break in, the order development cycles are very large, nine months, so we have had a little bit of challenge in terms of scaling up that business. We do have a good order book right now, we have orders from Bailey, we have orders from BEML and others in hydraulic cylinders, but for a ramp up of the nature of getting that business to 100 crores which is our intermediate target, I think we have a lot of work cut out for us. We will have to invest capital expenditure of a modest nature, 5 crores to 6 crores is what we have taken to the Board, we will have to invest that to make this division to get to a 100 crores. We have the capability to grow well in this business, I think the markets leaders Wipro and there are over a 1,000 crores in hydraulics, but we are confident that if we do our work well over the next few operating periods we should be able to see consistent growth in hydraulics.

Vikram Suryavanshi: So broadly how is now our CAPEX plan land up for the remaining part of whole this year and next year?

Aditya Rao: Our goal is to start next year with a 100 crores per month standalone base, and I am talking about PIL standalone right now. In order to accomplish that, I think what we are needed to do is invest in significant CAPEX improvements which primarily deal with capability, so this is not steady maintenance CAPEX, this is part of it is special grade CR as I had mentioned, but a lot of product development in Railways, a lot of product development in Solar. It is my belief that we are currently world beaters in Solar, I think the module mounting solutions that we have, I do not think anyone has in the world, I think we are one of the most efficient that I can think off. But anyway, getting back to your question, yes we think the total amount of CAPEX which we will need to do in order to accomplish those is well within our capabilities, we think about for the year end question we would have had close to about 30 crores - 35 crores in CAPEX and it will be a similar number next year, maybe slightly higher if you include the hydraulics business as well, but easily addressable through internal accruals.

Vikram Suryavanshi: And last question on tubes side, we are doing decent work but I think growth expectations are much higher, so is it mainly because of the interest rate slowdown or anything which, or how is basically the outlook for that side?

Aditya Rao: The Tubes if you would see, I think we remain extremely bullish on the potential for the tubes business. In terms of what we wanted to do for the financial year, I think we have clearly indicated that we wanted to do 200 crores, now owing primarily because of the raw material price fall we will have to moderate that to about 170 crores which is a decline of about 15% on what we said we would do. That being said, if you were to look at last quarter also, while we had modest growth in revenue, single-digit percentage growth in revenue, our EBITDA margin grew by substantially more. The reason for this is that we have been able to scale up our CDW business a lot more, so while you see flattish growth in overall, if you look at CGW tonnage which is a high margin tube business which is what we intent to scale up further, we are now at about 700 tons a month and we think that can go to about a 1,000 tons a month and getting to a 14%, 15% EBITDA in that field I do not think is surmountable, I think the markets are there and we are small player in that field, if you were to compare us to tube investments, we are one-tenth of their size. So there is tremendous opportunities for market share expansion and that will be our focus in tubes going forward, invest capacity to increase market share and focus on CDW Tubes.

Moderator: Thank you. Our next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.

Pawan Kumar: Last year Q4 FY15 we had a stellar quarter and there we did a PAT of around 17 crores last quarter, and from what I can see is our PEBS right now book is quite healthy at around 450 crores compared to last year around 350 crores, so what is our confidence in terms of repeating that kind of performance again, this quarter?

Aditya Rao: We will not be providing guidance sir, but if you are looking at the overall company for Pennar Industries, i think I can safely say and commit that we will have very good growth in this Q4 across all of our high margin businesses, and our goal right now is to grow all six business units in this quarter and we definitely think that is achievable.

Pawan Kumar: And coming to the railway business, I assume in the last quarter the order book position was at around 160 crores, 120 crores of coaches and 40 crores of wagon, so are we saying that wagon orders are over and now it is only going to be rather the coaches orders which are going to sustain?

Aditya Rao: The wagon 40 crores that we have is actually persisting, that has not converted to revenue, out of all of our business we will be having nowhere as much problem as we are having with railway wagons. Coaches by definition is the exact opposite, it is my belief it is the best business we have in all of Pennar right now. So the order book for coaches has grown from about 90, I think 90 plus you are saying 40, but I think it was 38 or something, so 120 something was total Railways order book. Now the wagons is there but if it is not converting we do not want to continue quoting it, we do this in PEBS too and in Pennar Enviro too if these orders we do not think are going to result in revenues we remove them.

Pawan Kumar: So what we are saying is, presently we have 120 crores of coaches orders which we are fairly confident of converting into revenues sometime, right?

Aditya Rao: 100% yes.

Pawan Kumar: And my last question regarding the wagons, is there any kind of visibility of any new tenders getting released or anything?

Aditya Rao: Well, we have been told it is eminent for the last few weeks, but I actually do feel it is time, I think now they kind of have to, but I think they will be close to a tender for at least 15,000 wagons released, mostly box BHL and BCNHLs. Our benefit from that, our share of business from that will quite frankly be only 4% to 5% and we do not expect more than 60 crores of an increase in that, but when that will convert into revenue is something, if I should be conservative about everything I should be conservative about railway wagons, I do not see a lot of clarity in terms of what is happening there. But we have an order book and when they decide to push it we can absolutely boost our revenue by supplying those products.

Pawan Kumar: Okay Aditya, but actually out of curiosity in the sense, since these BMC wagons whatever are being suggested to be much different that whatever wagons presently run on our railway tract, so are we not expecting any kind of significant jump in this ordering in the next one or two years where we can benefit?

Aditya Rao: We are working constantly on product development and we are working on a wide variety of paint-less wagons and also not just the traditional models but also different higher end models. So we are working, product development part continues unhindered. But as I said, I think it has to fructify, the orders have to convert to revenue and then it becomes reasonable, I mean for the year so far my wagon revenue is about 20 crores and that is just not good enough. So we have to make sure that it scales up a lot more and then we will be able to give you a lot of clarity, but from our efforts in terms of booking orders, in terms of product development, those are ongoing, we are quite confident that will proceed.

Moderator: Thank you. Our next question is from the line of Surendra Bachhawat, he is an Individual Investor. Please go ahead.

Surendra Bachhawat: Aditya, I want to know what is the capacity utilization of Tubes division?

Aditya Rao: Tubes division for ERW would be close to about 60%, for CDW it is near 100%.

Surendra Bachhawat: My second question is sir about, what is the top-line of this Hydraulics division?

Aditya Rao: We do not give our separate Hydraulics number sir, but I will answer your question, it is a small number.

Surendra Bachhawat: In rupee terms sir, what is the amount?

Aditya Rao: The total Hydraulics is an Industrials Components business, our Industrial Components business for entire year is about, last year was 60, this year will be good on top of that but it is not a very big part of that sir, but since we do not declare it separately we will not be able to give you a number, but it is not a very large number on that.

Surendra Bachhawat: Sir just one more question, why this Industrial Component division sales are declining?

Aditya Rao: Industrial Components decline as I had mentioned is primarily because the order inflow that we have seen, most of our customers here are Emerson, Tecumseh and others, basically the white goods engineering companies and various auto component companies such as TVS, Firestone, Honda, Xylem and others. So while we have had uptakes in certain kinds of components, we have had a massive downtrend in some of our customers in Industrial Components and that has resulted in Industrial Components revenue going down. That I think is a temporary phase though because the order book has sprung back up in Q4 and my belief is that Q4 will see a ramp up in Industrial Components business. So we think is an aberration where one or two customers scale back their projections for us and that resulted in a decline this quarter, next quarter onwards we think Industrial Components will continue to grow.

Surendra Bachhawat: Sir one more question, can we expect some dividend this year?

Aditya Rao: It is a question for the Board, I think we do expect healthy PAT growth and we have good liquidity, we do not have high levels of debt, so I definitely think that from a liquid cash point of view we have the opportunity, but I think it is a decision for the Board to take and our point of view is that a certain percentage of profit being dividended out is a very health policy and we will try to adhere to that, but is a decision for the Board to take.

Moderator: Thank you. Our next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: So as you mentioned at the beginning of the year, I think you have given those numbers, the profitability growth has much more been higher than the top-line growth. Few questions pertaining to the business, so first of all on the Systems and Projects side we have seen a margin decline this quarter versus the last quarter, any specific reason for that?

Aditya Rao: I am very surprised that there is a margin decline, right, 11.6% to 11.3% is that what you are talking about?

Gaurav Maheshwari: If I am not wrong, Q2 2016 was 14.3%.

Aditya Rao: Okay, 14.2% versus 11.6%. There is a reason for that, the rationale primarily behind that is that Railways was a much higher component of overall business which resulted in that margin gap, but we have taken a lot of business in solar at 10% in this which got sold out last quarter but we see that reversing in this year, so typically our solar business is at about 12%, 13% EBITDA and our railways is much higher than that. But I think in Q4 with railways I see as proportion increasing we will get that back, but certainly as there has been a moderation in terms of margin and railways in our systems and projects business overall because of the season, because our proportion of solar has been higher as opposed to Railways.

Gaurav Maheshwari: So typically can we assume a 14% kind of an average sustainable margins in the Systems and Projects business going ahead?

Aditya Rao: Absolutely.

Gaurav Maheshwari: Second question pertains to the order book for the Railways, it is almost 20 crores increase versus Q2 from 100-odd crores to 120-odd crores, you are sounding a bit bearish on the wagon side of the business but we also understand that coaches have been a lot of orders which have been given, and to both the guys to whom we supply. So has that flown into your numbers in the order book or is that yet to flow into the next quarter?

Aditya Rao: It has flown into the order book, but if you look at how much we output in terms of ICF revenue, we typically do about 12 crores a month, we want to expand that to a number that is double its size and we have orders, our current order books is enough for us to service the next seven, eight months. So we have seen order book increase, our goal is to ensure that we expand our railways capacities, I mentioned there will be need to be CAPEX on railways, so investing in some spot fab capabilities, expanding our stainless steel fab capabilities and also some fixtures and assembly units will ensure that our capabilities to manufacture what we call side-wall sets will increase, it already has, we were doing four last year per month and now we are doing close to 21, in this month we will be doing 21 and we expect to take that to 30 and beyond. So have seen their pulling us, ICF is one business where our customers push us to deliver more and I think that is a very good place to be in where your customers are demanding more to perform more, it puts a lot of good pressure on us to expand capacity and expand scale. But yes you are right, I am very bullish on our coach business, I would not say I am bearish on wagons but I think once I see revenues coming in I can talk about it, as of right now we have not seen that happening this year. But I still expect Q4 to have good wagon revenue, that is what everything is being projected at, but once it happens I can talk about it.

Gaurav Maheshwari: But 120 is the order book right now for railways?

Aditya Rao: For coaches, wagons as I said we have orders but the conversion has to happen so we will call it an active order book when we see the throughput coming in, when we see delivery dates and everything being placed with us, I think that is when we can start talking about it.

Gaurav Maheshwari: Sir what would be the total CAPEX at a standalone level or at a consol level for Pennar for next financial year?

Aditya Rao: I do not think you would see a remarkably high number, I think for consolidated levels next year would be close to 50, including PEBS and PIL, that is because even though we will have the PEBS plant, the way we are doing it is an extremely CAPEX maneuver, we are actually looking at Brownfield opportunities which I can indicate with a very high degree of confidence we would be closing some opportunity in the next few weeks. If we were to do that, the actual CAPEX it takes to boost previous capacity will be quite low, I do not think it will be very high. PIL on the other hand will have about 35 crores of steady state CAPEX and I think that will ensure that Railways, Solar continue to grow well and our Industrial Components line especially Hydraulics division also will continue to scale well.

Gaurav Maheshwari: On the Tubes business side, do you not need to do CAPEX because you are saying that CDW business are already at 100% capacity utilization, so that business would not require CAPEX to increase the capacity there?

Aditya Rao: We will, but the capital investments we will make will be of a nature funded by itself, so the Tube division will fund its own CAPEX, we do not need to raise any debt or anything like that for that, but the CAPEX will be of the nature of about 7 crores to 8 crores, but it is included in that 35crores.

Gaurav Maheshwari: And one last question pertains to the Solar business, on the DFC side, so Dedicated Freight Corridor we are seeing a lot of orders happening, so are we fitting into somewhere because we understand that there would be double-digit coaches, etc that they would be running on the DFC corridor, so anything that we are doing on that segment?

Aditya Rao: We are working on a lot of project development, unfortunately in this when you work with them I am pretty sure I cannot tell you what they are working on, but there are a lot of new models which we are working on and I think we are at the forefront of working with them to develop new sections, develop new products and ensure existing products also improve.

Gaurav Maheshwari: But do we have tie-up with any Japanese company, because what we understand is two corridors, one is it would be entirely taken up by the Japanese companies and the second corridor would be more for the Indian companies, so anything like that, do we have any tie-ups there?

Aditya Rao: I cannot reveal but we are in discussions with several companies for product development for Railways, I can say that much but I probably cannot give out names right now.

Gaurav Maheshwari: But with Japanese companies, that much you can tell?

Aditya Rao: I do not think so.

Gaurav Maheshwari: Because one of the corridors what we understand is that since it is more of a Japan funded project, most of the orders would be going into the Japanese companies, that is why the question was raised that it would be a Japanese company?

Aditya Rao: It is a multi-national but it is not a Japanese company.

Moderator: Thank you. Our next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.

Pawan Kumar: Sir, I wanted to have an outlook about the steel products business, so with the recent intermissions done by the Government as of now, are we going to see any short-term revival in the Steel Products business as a whole?

Aditya Rao: We will see the Steel Products business do better, that will not primarily be because of the MIP policy, the Minimum Import Price that has been imposed by the Government, that will have more to do with the capacity expansion that we have done in special grade CR, so there is lot of special grades of steel such as 16mm, manganese-chromium alloys and high carbon steel specifically, and also grades which we are adding which are niche products, that will scale it up, that I think as I mentioned to you we are expecting good growth in that 100 crores next year growth and the steel products business should come from that. And the good part is that 100 crores will be at even conservatively speaking 10% EBITDA plus, that the 100 crores that is added. So good products is good margin and I am quite confident of steel products growing next fiscal and Q4 also we will see some growth is our expectation.

Pawan Kumar: And what would be our capacity utilization on the coaches sir, right now?

Aditya Rao: On the coaches side, as I mentioned we are constantly increasing capacity, we measure capacity in terms of ability to make side wall sets so we were at a much smaller capacity a year, year and half ago, right now we are at 22, 23 but the good news is that the capacity expansion can happen very quickly, it is essentially putting some robotic equipment up and putting some jigs and fixtures up, and the rest of it is just in our in-house skills and capabilities in stainless steel fab. So adding capacity and doing it to 30 or something will not take a huge amount of CAPEX, but from a timeline point of view it will take about five to six months' maximum.

Pawan Kumar: Finally sir, can you just breakup the CAPEX for me, in the sense I understand 6 crores or 7 crores is for hydraulics business and the other part would be majorly in which division?

Aditya Rao: Sir if it is okay with you, what I had given was broadly indicative numbers, now my Board does has have to approve all of my CAPEX.

Pawan Kumar: I do understand that, but broadly if you can just signal to us where we are going to invest more?

Aditya Rao: About 14 crores will go into Railways which is a combination of our existing ICF business and also our new RCF business, that is a new revenue which we will bring in for next year. We also expect further investments into Tubes to expand capacity, Industrial Component, that capacity will also be close to about 6 crores, Industrial Components and Hydraulics will need significant CAPEX, 6 crores to expand sales and put us on the growth path again for that vertical and for Enviro there will not be any CAPEX, there will be regular working capital increases or revenue increases in tandem with revenue increases, as of right now there is no long-term debt or anything in Pennar Enviro. And PEBS will have its own CAPEX investments which will be close to about between 16 crores and 20 crores if the Board approves it.

Pawan Kumar: And how is the saturation on working capital side sir on PEBS, is it because in Q2 there was a bit of stretch out there, has it normalized now?

Aditya Rao: We were expecting it to normalize, and to an extent it has, but unfortunately we have had to re-up it again and we have used our own reserves, our own cash flows for this, but the reason we had to do that was the MIP, since the Minimum Import Price indicates an increase of already Rs.1,500 per ton increase has come in and we expect further increases down the line, I think the steel industry is now on a war path to get their prices up which is a good thing for us, it needs a huge healthy revenue increase for us but it does put the element of ensuring that all of our orders we have the raw material for. So just on the last few days we have ordered quite frankly a ridiculous amount of raw material, there is no risk to this, we already have the orders, for those orders we are buying raw material but it has resulted in a working capital going back up, but our debt has not gone up, we pretty much have the same amount of facility that we use plus we have reserves as well and I think I can also say that in addition to all of this PEBS has mutual fund investments over 35 crores separately we have kept aside which can be used at any point of time for working capital purposes or capital expenditure or any other purposes. So I would not raise an alarm on the working capital but definitely it is high and it needs to be high so that we can hedge our order book.

Moderator: Thank you. Our next question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal: I had one follow-up question, could you give me the debt numbers, both long-term debt and working capital debt for the parent and for the subsidiary entity as of 31st December?

Aditya Rao: The total long-term debt for Pennar Industries is about 17 crores, that is standalone I am giving you, the total long-term debt for PEBS is 0 (zero), as I had mentioned we have positive investment instead of 0 (zero), the total long-term debt for Pennar Enviro is 0(zero). So the total long-term debt for the consolidated Pennar Industries' unit including Pennar Enviro and PEBS is 17 crores. Even that 17 crores is for solar power plant which we had built about two years ago, to make sure we have power security because there were rampant power cuts at that time in the state, so it works and feeds itself. So effectively we are debt free from a long-term point of view. From a short-term point of view, the total cash credit usage for Pennar Industries is about 85 crores, for PEBS it is about 35 crores, for Pennar Enviro it is about 4 crores to 5 crores, I do not have the exact numbers sorry, because it has grown quickly so we submit it and you see immediate and try to increase it, but you should look at Pennar Enviro increasing its working capital by I would say 20 crores at least, we should do it and I think that is a very healthy thing considering the growth in the company.

Ashwini Agarwal: One quick clarification, in the response to previous question you mentioned that your run rate CAPEX is about 35 crores, but in addition to that you are awaiting your Board's response to your proposal on the Tubes business which might be another 15 to 20 crores, did I hear you right on that one?

Aditya Rao: No sir, what I told you is 35 is essentially inclusive of all standalone PIL CAPEX as of right now and that is something that my Board has to approve before I can commit to that number, but effectively what we will be taking is Tubes CAPEX, Railways CAPEX, Tubes I estimate about 6. But please do not hold me to these numbers, we will intend to reduce them further, but the idea is to give you an idea of how much CAPEX we will have and I expect it to be around 35 crores next year, and if I air I will air on the bottom side.

Moderator: Thank you. Our next question is from the line of Ankit Shah from Vallum Capital. Please go ahead.

Manish: Aditya, this is Manish. I wanted to check one thing on the solar mounted structure, how the space is, is it equally competitive enough, would you withdraw that space or would you increase your stakes in that space over a period of time?

Aditya Rao: We are currently in the process of expanding capacity furiously for that space, it is not very CAPEX intensive, it is a few crores but it is something that we will definitely have to deploy and expand capabilities in. We think it is an excellent space to be in, I know that the falling solar prices give a lot of people cost that harms but I have absolutely no reservation in saying module mounting structure is an excellent business, excellent cash flow, excellent turnaround, there are times I get order in January and turnaround in the same month as well. So we believe we are market leaders, we do not think there is anyone out there who is bigger than us in the module mounting systems space and we have very strong capabilities and design in manufacturing and project management. So far, all of India has installed 4 gigawatts and the total we have supplied for is about 1.5 gigawatts. So it gives us over close to 30% market share and we believe that there is a lot of potential for this business to grow further, and when we have new technologies like optical tracking solutions, single access tracking solutions coming up, we believe that this will be a very good space for us in the future, I would say that it is one sector, one part, one business unit we are very bullish about next year.

Manish: I am referring to the conversation we would have had, one, regarding the margins which was compressed in this business maybe a year back and then you said there was some comeback of the margin. And second thing, also on the impact of if GST is implemented and how the VAT and the structure would have some kind of changes in this overall structure and architecture of this business?

Aditya Rao: That is actually an extremely good question. I will answer it in two ways, firstly, the margins for the business are quite good, as a blend it is equivalent to PEBS margins which is among the best in the company right now. But in terms of what happens in GST, well I have to be honest, I do not have the best news for you, we have a big competitive advantage right now when GST is not coming in because we are one of the largest in MMS or we are the largest in MMS because we can pass the MNRE credit exemption that we get on a larger on, I had explained this to you last time. Now that advantage will stay as long as GST stays, if GST comes in April than that advantage disappears. That does not mean our revenue would disappear, it just means that we would have to have some element of margin contraction in that business. But it still would not under perform, it will get to where rest of our businesses are, around the 10% EBITDA in the standalone business, but it would not be a tremendous amount of moderation, but as of right now, yes we would get much better margins as a blend especially when we design manufacturing direct we get very good margins in this business and very good cash conversion. And for that to persist, yes I mean if GST does not come we would not be too unhappy.

Manish: And my last question again is, are we working across India or we have dominant market share in few of the geographies in Solar?

Aditya Rao: We work across India in all geographies, we have in the last one year executed in Rajasthan 30 megawatts, in Chhattisgarh we are executing order still and already executed before, we are working in Karnataka, we have completed projects in the last quarter in Telangana and AP and we are also supplying to Gujarat and Rajasthan, Rajasthan again in this quarter.

Manish: One more follow-up, one of the another CAPEX cycle which is going to go through an upturn is in the defense industry, so is there any area which would be of some interest to you in the defense industry and which could be within our area of capability and competence at this point of time?

Aditya Rao: Unfortunately, we are a military engineering services contractor and there already is some element of orders which we service with Defense industry, it is modest right now, I will not be able to give you more details because I am contractually bound not to reveal any details about those contracts. But I can say that this is a very high focus area for us and there is a lot of work going on in the company in order to tap defense orders and that is something that we are very eager to do and to increase the revenue, but I would not be able to give you any numbers or order book or anything like that right now.

\ Manish: That is okay, but I just wanted to know which division it would fall under, or is it separate new division which would one see?

Aditya Rao: It would be part of Pennar Industries sir, standalone.

Manish: I mean to say steel components or which would be division which it would be impacting?

Aditya Rao: It could come under Systems and Projects.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Amit Purohit for closing comments.

Amit Purohit: Thank you very much. On behalf of Dolat Capital I thank the management to giving us the opportunity. Hope this was very fruitful for all of you. Thank you.

Moderator: Thank you. On behalf of Dolat Capital Markets that concludes this conference. Thank you for joining us and you may now disconnect your line.

(This document has been edited for readability purposes)