"Pennar Industries Limited Q4 FY13 Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the Pennar Industries Q4 and FY 13 Earnings Conference Call hosted by Batlivala & Karani Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should you need assistance during this conference call please signal an operator by pressing "*" followed by "0" on your touch tone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Bhalchandra Shinde from Batlivala & Karani Securities. Thank you and over to you, sir.

Balachandra Shinde Good evening everyone, welcome to the Q4 FY13 Earnings Call of Pennar Industries. We have with us the management of Pennar Industries being represented by Mr. Aditya Rao – Vice Chairman, Mr. Suhas Baxi – President and CEO and Mr. Ravi Rajagopal – the Chief Financial Officer. I will now hand over the call to Mr. Suhas Baxi for his initial remarks post which we can open up the forum for Q&A. Over to you sir.

Suhas Baxi Good afternoon everybody and thank you for being on the call. We have just concluded our board meeting in the morning and released the financials of fiscal 2013 and as well as the Q4 quarter of 2013. This year has been a difficult year for many companies in the industry and Pennar has not been an exception. However, as we indicated to the investment community at the end of the Q3 is that our Q4 would be better than Q3 so we had Q4 results which were significantly better than Q3 both for the parent company as well as the subsidiary companies. So while we would talk about the results in detail, I'm happy to say that we did perform as we had indicated on the last analyst call and we expect that 2014 will be better than 2013. With that I would request Aditya Rao to make his initial comments and observations on the performance as well as the expectations from 2014.

Aditya Rao A very good afternoon to everyone with us today. It gives me great pleasure to tell you that in a tough macroeconomic environment, Pennar Engineered Building Systems, the subsidiary of Pennar Industries which provides custom designed building solutions, has done quite well. There has been revenue growth recorded, EBITDA growth as well as bottom-line growth and considering the environment, we have been able to put in place several measures which allowed us to diversify to cold form buildings, high rise building structural and other product verticals. For the year in question, we close the year at around Rs. 325 crores in terms of top line with an EBITDA of Rs. 35.5 crores and a bottom-line of Rs. 14.4 crores. For next year, we expect the same aggressive growth we have seen this past year and we are hopeful that our new initiatives such as plant in the North of India and our entry into modular solar structures and international markets will allow us to scale growth further. With that, I would like to hand it back to Suhas.

Suhas Baxi For the quarter ended in March 2013, Pennar Industries as a standalone company posted a turnover of Rs. 263 crores and net revenues of Rs. 230 crores. The consolidated company's gross revenue for the quarter ended March 2013 is Rs. 345 crores and the net revenue is Rs. 305 crores. The consolidated profit before tax is Rs. 17.41 crores and the profit after tax is Rs.

8.92 crores. The standalone company's profit before tax for the quarter is Rs.8.67 crores while the profit after tax is Rs.5.3 crores. A look now at the comparison of these results vis-à-vis the last quarter starting from the standalone company - the Rs. 263 crores turnover compares with Rs. 226 crores turnover for the last quarter, so we have had a growth of approximately 16% on the turnover. At the profit before tax level, last quarter's profit was Rs.12.56 crores while this quarter the profit before tax is Rs.8.67 crores for the standalone company and this reduction is primarily on account of certain sales reversals that we have booked on account of a change in accounting practices adopted and this is a one-time effect which has come in the fourth quarter. So while the turnover has gone up, the profit has come down for the standalone company by a small margin. Looking at the consolidated results, the Rs. 345 crores turnover that we have in this quarter compares with Rs. 305 crores of turnover in the last quarter, so there is a 14% growth recorded. Again for the consolidated company, profit before tax has grown from Rs.16.79 crores to Rs. 17.41 crores, so we have seen a small jump in profit on a quarter-on-quarter basis at the consolidated level. The clear reason for that is that the subsidiary company Pennar Engineered Building Systems has shown a much improved performance vis-à-vis the last quarter even on profitability.

As far as the full financial year is concerned, I'm reading out the audited financial results for the year 2013. I'm starting with the standalone company - the stand-alone company's net revenues from operations is at Rs. 848 crores against last year's performance of Rs. 976 crores. Profit before tax and depreciation is at Rs. 80.85 crores against Rs. 118.22 crores and profit before tax is at Rs. 47.09 crores against last year performance of Rs. 85.09 crores, while profit after tax is at Rs. 31.14 crores against last year's performance of Rs. 54.26 crores. At a consolidated level, the turnover of the group this year is at Rs. 1274 crores against last year's turnover of Rs. 1381 crores. The profit before tax and other financial costs for this year at the consolidated company level is at Rs. 100.26 crores against last year's number of Rs. 131.47 crores while the profit after tax this year is Rs. 45.63 crores against last year's number of Rs. 64.69 crores. We can see that the turnover has come down and even the profitability has come down. However, if we look at quarter-on-quarter performance, we do see that the Q4 performance this year has been better than the Q3 performance this year, so we have started seeing an improved trend in Q4 vis-a-vis Q3 both on turnover and profitability and therefore like I said on the last call, we do believe that we as a company have crossed that cliff and started on a growth path. The turnover has started increasing and profitability has also slowly started rising. We have seen a fantastic performance in our subsidiary company, Pennar Engineered Buildings Systems. Even in the parent company, we have now started seeing some green shoots which will allow us to start performing better on a quarter-on-quarter basis in the future. Aditya, would you want to add something here especially on Pennar Engineered Building System?

Aditya Rao In PEBS, our goal has been market share growth for this financial year and we managed to expand in all of the markets that we have been present with increased market share, so with 0.5% in the North being the lowest market share we ranged to 18% market share in the South and in the next financial year we intend to expand all the markets we are present in to doubledigit ranges in terms of market share. So considering the environment we operated in, we are quite pleased with the results - we managed to hold on to our gross margins, improve EBITDA margins and to achieve the EBITDA and PAT targets that we have set for ourselves this year. The other subsidiary Pennar Enviro is in the business is providing fuel additives, water treatment chemicals and water projects. The water projects side of the business will be starting commercial production from the Q2 of this financial year but there has been growth in the fuel additives and water treatment chemicals business to the tune of about 25% and we have aggressive plans for this division as well.

Suhas Baxi Thank you Aditya, I also thought, I will take this opportunity to give little more details on the parent Pennar Industries' performance in terms of various business units. During the last couple of quarters, we started looking at our business as a combination of four business units and the reason why we started looking at these business units were for the purpose of driving market share growth so we have four business units which are steel products, projects & systems, Tubes and the industrial components. What we have seen vis-à-vis last year is that the business of Tubes and industrial components has grown in 2013 as compared to 2012. In fact the growth in Tubes business has been more than 65% and this probably is the biggest single good news that we have seen in 2013 as far as turnover of growth is concerned. Although the tube business in the country more on less stagnated, our market share as well as our business grew by 65% and I think that was very important because we were investing in new manufacturing capacity here. Our business of industrial component has also held forth, as you would be aware that the business of industrial components is essentially with auto companies and white good companies and while the market of both these sectors did not really grow in fact the market was shrinking but we held to our volumes and actually posted a small growth in turnover as well as volumes. Two of our concern areas during the year especially in the first couple of quarters have been our conventional business of steel products. And the business of steel products did experience a drop in turnover but while it experienced a drop in turnover, we made sure that our margins on this business are in the range of between 9.5% to 11.5% and that is something which we have been able to maintain throughout this year. The one area of big concern for us during the year was the business of projects and systems which consists of railways and solar. And railways we did see a drop in turnover vis-à-vis last year while the solar business grew by more than 30%, the business of railways dropped substantially, so overall we do see a drop in turnover in projects and systems. So two of our segments came down vis-à-vis 2012, two of our segments grew vis-à-vis 2012 and the segments that dropped were the bigger segments so while we do see growth in some pockets and in some parts of our business, the overall business dropped. The good news though is that quarter-on-quarter, Q3 to Q4 we have seen growth in all the segments and we do believe that this is not just a Q4 effect but this is on account of the fact that some of our new products are stabilizing, some of our new customer relationships are stabilizing. Aditya, would you want to probably add some of the new orders that Pennar Enviro has booked this quarter?

Aditya Rao Pennar Enviro is going to start commercial production in Q2 and in that line has started booking orders, so Pennar Enviro has started receiving orders from Amtech Auto, from Larsen

& Turbo, Metrorail form Hyderabad, from My Home Cements for an ETP plant, from CETP plant we are executing in Kerala and several others, so we have started order booking we are at a hit rate of about Rs. 5 crores per month and we are hopeful that even that order intake will be scaling up over the next few months as we move toward starting commercial production and commercial operations.

Suhas Baxi I think one of the things that we have been able to achieve as a company through our diversification into Pennar Engineered Building Systems, Pennar Enviro, the business of state precision Tubes, the business of industrial components and business of engineered profile, is that we have been able to slowly reduce the classical steel rolling company business model. A lot of people in the market do look at us as a steel rolling company but if one looks at what is the turnover that we make out of the cold rolled steel which used to be one big business for Pennar in the past till now about 20%, so our business from value added engineered products, value added systems and projects, Pennar Engineered Building Systems and Pennar Enviro all of it put together is now almost 80% of the business which I think is a single biggest development as far as this year is concerned and we do believe that going forward this 80% block will continue to grow. Our presence in the cold rolled steel acts as a very-very interesting input to rest of businesses and I think that has become our competitive strengthen, so rather than being a cold rolled steel manufacturing company I think Pennar has become a big captive customer of that capacity and that has become our competitiveness. As far as profitability goes, businesses that stand out in terms of profitability are industrial components with an EBITDA of 13.8%, system and projects within EBITDA of 13.2% and Pennar Engineered Building System with an EBITDA of more than 12%. The two businesses which have lower EBITDA margins are steel products at 7.9% EBITDA and Tubes with a 7.3% EBITDA margin. The business of Tubes has the lowest EBITDA also on account of the fact that we have still not scaled up in our manufacturing. When we start utilizing manufacturing capacity to the fullest which has started happening in the last quarter onwards, the EBITDA in this business will improve and go beyond 10%. Once again as far as EBITDA distribution is concerned the steel products contribute to around 35% of our EBITDA and even within that if one has to look at the EBITDA from cold rolled steel strips business, the contribution would be less than 15%. So once again as far as the turnover of the company is concerned and the profits of the companies are concerned the real turnover drivers and the profit drivers for the company are businesses which are in value added engineering. I thought we also want to give a small brief on what are our strategies going forward as far as the business is concerned. Aditya, could you talk a little bit more about PEBS' strategy?

Aditya Rao So some of the highlights this year was some cold formed steel building orders that we received in PEBS. These are very profitable orders and some of the orders have been booked in segment under the Sarva Shikha Abhiyan scheme where we are creating school buildings in Assam. We have received repeat orders from Godrej, Hindustan Unilever, Volvo and Continental Tyres in the cold form building segment and we bagged one major order from IOT Infra for about Rs. 43 crores for our warehouse building in Dahejpur. We have completed execution of this project and this is currently the largest building of any kind in India with over

1 million sq. ft. of uncovered area. We also got a successful breakthrough in the Metro Rail Project through L&T in Hyderabad. I would like to highlight one more thing here before I get into our strategy for this financial year - We have received private equity investment into the subsidiary this year. Zephyr Peacock, well-known US based fund - has picked up a 25% equity stake in the company for Rs. 50 crores, thus valuing the company at around Rs. 230 crores post money. We believe that PEBS has seen very good cash flow generation this year and in combination with the private equity investment, PEBS does have the capability now to deploy these funds into projects which will allow us to scale our market share up even further. So for the next financial year, we have set targets for ourselves that are reasonably aggressive. We want to increase market share in North India, increase market share in Tamil Nadu and also increase our share of exports and start off a solar structural EPC which could contribute as much as Rs. 75 crores of revenue in this financial year. So we're taking targets of about Rs. 443 crores in terms of gross revenues, we will retain a 21% contribution margin, we are targeting about Rs. 46 crores of EBITDA and Rs. 23 crores in terms of PAT. So obviously this will be very significant growth from our current year as well which is also seen a 60% improvement on PAT already. Our chief driver strategically is the North Indian market, we have just not being able to tap it effectively from our base in South India right now. We are present in South and West India, our market share in South India ranges from 18 to 27% among the South Indian states and in the West of India we range 8% to 11% however that same market share in North India ranges from 0.5 to 2% which is essentially another way of saying that we are almost absent in the North Indian market. We intend to tap this market in two ways - we now have our plans which are under execution bringing the North India plant operational, we have targeted Gujarat as the area where we'll be putting up the plant while we wanted to set a complete plant and feed orders into it in this quarter, it has got in a little delayed and we will be in a position to do this only after Q2 however this will not have an impact on the revenue generated by the company because the orders that have been booked keeping in mind the North Indian plant are going to be now executed out of South India, out of our Hyderabad plant.

So for the financial year in question we think steady-state growth will get us to about Rs. 343 crores for PEBS, Rs. 75 crores sales in solar EPC and Rs. 25 crores in cold form. In addition to some structural steel orders that we are executing and export orders will get us to a good number of Rs. 450 crores or maybe even beyond that. So that is the target for this financial year and our strategy is to gain market share, diversify into new product verticals and to build capacity in the North of India which will allow us to cater to these markets effectively.

Suhas Baxi A couple of things that I want to highlight based on how do we derive the strategy of growth for the next year irrespective of what the market and the economy conditions out there, is during 2013 while we did see difficulty in growing our turn over I think one very important fact of 2013 is the type of customers that we added within Pennar Industries and within the group, so for example if you look at Pennar's traditional business, the auto industry, railways, general engineering companies were our customers. As we started growing the business of Tubes, we started adding customers which were very different, so for example customers like

Thermax, BGR Energy, VE Commercial, Gabriel, and these became customers. If you look at the business of systems and projects which was earlier limited only to railways, there we started adding customers like ABB, Lanco, Larsen & Toubro, Tata BP Solar, Schneider Electric, so clearly during the year 2013 the type of customers that we added, the diversity of the customers base and hence the number of the business segments on which our business is depended that started getting diverse and I think therein lies some of the strategic continuity that we would bring between 2013 and 2014. Building more and more new products in the segments in which we have present making sure that we invest in product development which allows us these new products but parallel we invest in systems and processes in our manufacturing factory to reduce cost of production, setting up manufacturing facilities in the North of India to address the Northern India market, looking at export opportunities for our business are some of the strategies that we have already started working on and towards this what we did is we have built a strong management team. I joined the company in December and between December and now, we have had four new senior managers who have joined the company from different parts of the industry, people with more than 20 years experience, people with a very diverse experience who have added a definite sheen to the management team of the company, not only we have added people at the top management level we have also added some skill set at the middle management level. We do believe that addition of competencies that we have made during the last few months help us get into different parts of our markets. Now while saying that, my clear message here is continuity from the past and building competency for growth I think that is what our strategy is and based on this we do believe that from Rs. 848 crores net turnover of this year, Pennar Industries' net turnover next year as a standalone company would grow to Rs. 1002 crores and added to this a turnover of Rs. 440 crores from PEBS and approximately Rs. 50 crores from the smallest subsidiary that we have which is Pennar Enviro we as a group are looking at the net turnover of the company being in the range of Rs. 1500 crores for the year 2014. So while we invested in growth, while we had difficult financial year, one key ingredient which was there in our thought process was how we make sure that we continue to maintain a standardized policy of rewarding our shareholders. While we had a relative difficult year in Pennar Industries from a profitability point of view, the year was substantially good for Pennar Engineered Building Systems and given the fact that there has been a private equity infusion in Pennar Engineered Building Systems, we didn't believe that from a cash generation point of view of the financial year 2013 was a good year for us and given the fact that it was a good year for us, we decided in the board meeting which just concluded in the morning that we would maintain the dividend percentage at 20%, so though the company performance in terms of profitability has come down, given the fact that we do see as a group level a healthy performance and we do see at the group level a confidence in the financial year 2014, we wanted to pass a positive message to the shareholders that we have maintain the dividend percentage at 20%. I do believe that something like this would show the faith that the management has in the business and would also show the fact that we are consistent with respect to our policies vis-à-vis shareholders. Aditya, would you like to add something on this particular front?

Aditya Rao I think as Suhas has mentioned, the cash flow generation this year was strong, we had our challenges this year but in terms of this company's fundamentals we still remain strong, our balance sheet remains strong and to ensure that our shareholder returns are not impacted by the macroeconomic environment, we are confident that we have our goals set for next financial year and we are happy to state that the dividend rate is maintained at 20% of face value and together the group companies intend to reach that reasonable aggressive growth target and we have drawn up plans that will meet those targets or maybe even exceed them but we think we are in a good place in this financial year to meet the goals that we have set for ourselves.

Suhas Baxi And the fact that the company's balance sheet continues to be something which allows us to invest in growth, the ideas that we have for growth I think the company has an ability to fund this growth and to make some of the growth initiatives that with that we have taken turn into reality I think that is what our message for the analysts and shareholders in general. With that, I would now want to have the call open for Q&A.

Moderator Participants we will now begin the question and answer session. We have the first question from the line of Ashish Kacholia from Lucky Investments, please go ahead.

Ashish Kacholia I just wanted to ask you while I'm a shareholder and I am pretty thrilled with the dividend that you have declared of Rs. 2, does it leave enough money in your kitty and in the balance sheet of a company to kind of accommodate your growth targets for the next year?

Suhas Baxi We do have investment plans in 2014 and a part of the funding for the investment plans would come from the cash flow that the company has generated and the cash flow that the company will generate during the ensuing financial year. We also believe that we have an ability to raise long-term debt given the fact that long-term debt on the company's balance sheet is very small. So we would be also looking at financing some of the projects in which we are investing through raising long-term debt.

Ashish Kacholia My second question pertains to the fact that we have seen that while the metal sector is not very glamorous sector, there has been interest among world leaders such as Warren Buffett who has invested in the Israeli company called ISCAR, I do not know whether you're aware of that, so is that any technological capabilities that we are building up in Pennar that will stand up to technological good brands for us as a technology or an innovative kind of a company because that is eventually what will get us much more better valuations from the stock market in times to come?

Suhas Baxi I would want to answer your question in two parts - the metal industry is producing commodity products, so for example in every form of steel business there are certain commodity products and when you make this commodity products the cost at which you make them becomes a significantly important factor, so one of focus areas in our company as far as technology is concerned, is how do I use technology which is production technology, which is operational technology to reduce my cost of production and take this cost of production at benchmark level, at a global level, that is one way. The second part of the business is using manufacturing technologies to move to those products which are not necessarily commodity products, which become essential elements of the technology that some of our customers are building, just to give you an example of some of the press metal components that we are manufacturing, some of the press metal complements that we make become an integral part of certain precision equipment that our customers make, now that is where technology and manufacturing, our ability to manufacture position components come in and clearly the growth driver for our business going forward will be investments that will be make in precision components whether it is precision Tubes, whether it is to tubular products out of precision Tubes, whether it is precision metal form components or pressed metal complements, assemblies, sub assemblies taking the business forward in that manner through investment in manufacturing technology and through high-tech manufacturing. Currently we are looking at sectors such as automotives or white goods as our customer segment, but clearly one of the biggest segments which is available for metal forming company is the aviation and the defense segment, however the type of product technology and production technology which is required for you to be present there is very different and that is the direction in which they are going, so we're definitely investing in that direction. Have I answered your question?.

Ashish Kacholia Are there some opportunities in the aerospace and automotive components that have already fructified or which are in the pipeline that you can share with us?

Suhas Baxi At this moment sharing would be difficult because I would say that there are a number of pregnant opportunities but these have not come to a stage where one can share them but I'm sure in the next couple of quarters we would be able to talk more openly about them.

Ashish Kacholia I just wanted to point out one thing that we have not been able to see the actual result of this quarter either on the company's website or on the stock exchanges, so maybe on all future calls we just make sure that this information is already there available for the analyst before the call starts.

Suhas Baxi We will definitely make sure that that happens.

Moderator We have the next question from the line of Abhijit Vohra from Unifi Capital, please go ahead.

Abhijit Vohra As informed by the previous analyst also I would say that please do make the results available before the call is started so that we can ask meaningful questions, so my first question is I just wanted to know on your consolidated level why the interest cost is jumping in on year-on-year basis as well as sequential, it has gone up from Rs. 3.6 crores last year to about Rs. 9.3 crores this year. When I look at the yearend balance sheet that is more or less or even has come down if I take a long-term borrowings also into account slightly it has come down but then why is the interest costs went up, this is the first question? Second question is on a stand-alone basis for the performance which you just reported, I want to understand what is the key factor for the profitability coming down drastically. I know that you have mentioned in the initial remarks but if you could just stress and give us in a detailed manner what actually played havoc with the margins? And third one is, the recent announcement you made Zephyr Peacock, your PEBS subsidiary, so what is the rational and from this investment apart from cash which is flowed into the business which will help finance the growth other than that any synergies you are looking at if you could give us a broad some sort of outlook as to when you expect these synergies starting playing out?

Suhas Baxi You have asked essentially three questions, one of it concerns the margin, second is concerning the interest payment and third is concerning the Zephyr Peacock investment, is that right?

Abhijit Vohra Right.

Suhas Baxi We will begin with your last question first.

Aditya Rao Regarding Zephyr's investment into PEBS, we feel there is an investment that is very timely and allows us to do a lot of things which we had not been able to do otherwise. The Rs. 50 crore investment that Zephyr has put in gives them a significant stake in the company, it also converts the company into a stage where the PEBS like its parent company is now virtually debt free, what it allows us to do is look at significant CAPEX combined with the cash flow this year, so in this year there has been cash flow in PEBS of close to about Rs. 20 crores, so with this capital we will be able to finance our operation in North of India and we will also be able to finance a plant in Africa. We believe Africa to be a major growth vertical for us for the Rs. 30 crores of sales that we have done so far internationally virtually all of which is in Africa, we have margin which are far superior to what we have in India. We have a very cohesive Africa strategy where we are focusing on rep offices and team buildups and we want to complement that with capital expenditure also which will allow us to build up capabilities and production capabilities in Africa. We have a plan chalked out for this to happen, the other aspects of Zephyr's investment is, Zephyr's couple of directors have also joined the board and their contacts will allow us to scale up our PEBS business as well. The last point I want to make is that we need to invest consistently into more capabilities as far as our engineering capabilities are also concerned so we typically a technology backbone consists of software such as AutoCAD, STAAD, BCAD, StruCad, perhaps AutoCAD would be the least complex software that we use, we also have proprietary software which we have developed ourselves that we use. This allows us to design engineer and detail buildings of a bewildering kind of capacity, we have designed building many kilometers in length, we have designed ones that are 40 m heights, we have made the highest clear-span building in India and we made the first gold rated green factory in India. We have made a building with 250 metric tons frame carrying capacity, so there is a lot of thrust as far as PEBS is concerned in terms of the projects that we have executed in India. Going forward, we believe further investments into assets such as AceCad, such as X-Steel and other more expensive software like ETABS (a multi-story structure design software) this will help us boost our credentials, it will help us open markets which are not open to us right now. These are expensive software, so we have CAPEX plans in place and what this investment allows us to is to do this CAPEX confidently and it allows us to scale confidently without worry of over leveraging, so that I think that was the primary rationale behind the Zephyr. Does that answer your question or is there something else you're looking for as far as your Zephyr question is concerned?

Abhijit Vohra Just one clarification the plant in Africa, how much would you be spending and when would it get commissioned?

Aditya Rao We have currently put up Rs. 6.2 crores, we have the team that will be going to be doing the implementation on-site in Africa already setup but I will give the timeline only in the next board meeting since I will need formal board approval for the timeline before I give them to you but we definitely intend to have this up this financial year.

Abhijit Vohra While on the same question, could you also then repeat PEBS performance for this quarter and as well as for the entire year?

Aditya Rao I will start with the financial year in question, for the financial year we have had about Rs. 325 crores in gross sales, net sales of about Rs. 290 crores, profitability EBITDA of about Rs. 35 crores and a PAT of about Rs. 14.4 crores. The EBITDA margin is about 12% and the PAT is about 5%, now typically the way the audit is done is first the way financial represented, we have given quarterly results and then in the Q4 is essentially a subsection of the year but there are audits, Deloitte is our auditor and they do audit the company, so it might not give a very fair picture of exactly what had in Q4 because audit is conducted for the whole year where as we have reported nine-month number already. So essentially for the last quarter we had close to about Rs. 120 crores in sales and EBITDA was quite high because of certain cold form buildings that we had so we had about Rs. 15 crores in EBITDA in that quarter alone and profit after tax was close to Rs. 7 crores.

Aditya Rao Let me go to the next question which was related to margins that you had asked now, I think I would ask so the question about margins at two levels. If you look at the overall consolidated numbers the EBITDA for the year 2012 was 11.9% and EBITDA for the year was 2013 is 10.2%. Now this is at the yearly level, now there are two factors here, one is the fact that obviously as far as the parent industry Pennar Industries is concerned the scale at which probably Pennar Industries is going to give more than 10% EBITDA was reflected in 2012 turnover, when the turnover dropped obviously we had fixed cost which had to be accounted for and those fixed costs resulted in lower margins across the board in all businesses but having said that when we look at Q3 to Q4, the EBITDA percentage from Q3 to Q4 dropped from something like 9.8% to 7.5% odd and this had only one reason, during the quarter we did reconciliation of our accounts with a number of our regular customers and we did see a situation where there were a number of past invoices, where the billing that we had done was different from what the billing that the customers had recognized, so during this reconciliation process with the regular customers we came to a number one sales reversal which was approximately Rs. 4.29 crores and we decided to reverse sales worth Rs. 4.29 crores which were recorded over the last few quarters, in fact even outside the last financial year in the Q4 of 2013, so the sudden impact of that reversal has come throughout the results into EBITDA as well as right up to PAT level but theoretically if I have to add that Rs. 4.29 crores into our results, our profitability will continue to be approximately 9.8% which was also the profitability that we had in Q3, so operationally we do not see a reason to worry that the profitability has come down, but yes, in Q4 we had an accounting adjustment which resulted from sales reversal, I think does that satisfy you?

Abhijit Vohra Just one clarification further on this reconciliation, does that mean earlier you had booked in sales as well as it was present in receivables but now you are reversing it in probably other expenses, so how does it reflect in balance sheet, do you write it off or how is it?

Suhas Baxi No, it is reversed in sales as well as reversed in receivables.

Abhijit Vohra When you are reversing it in sales is it included in other expenses, why I am particularly asking other expenses is that, it went up to Rs. 35 crores from Rs. 32 crores last year and Rs. 26 crores sequentially?

Ravi Rajagopal It is not included in other expenses.

Abhijit Vohra Then your other expenses also going up any explanation for that, even though your top line slightly came down, your other expenses when I look at it on a year-on-year basis as well as sequential, it is going up?

Aditya Rao Modicum of change is not that high and every quarter has is variability but in due measure we will work on this and get back to you regarding an exact treatment of why other expenses are high.

Suhas Baxi There are two reasons why the other expenses in 2013 are higher vis-à-vis 2012, though I agree with you that the modicum of increase is not very high. One is the power situation we had our average cost of power going up on account of the fact that for majority of the year we did use substantial large percentage of DG power. As you know some off our bigger manufacturing facilities are located in Andhra Pradesh and the situation vis-à-vis power in Andhra Pradesh has resulted in many industries having to resort to parallel modes of power generation so we had to resort to diesel as our secondary source of power for almost 8 to 9 months during the financial year. During the last quarter of the financial year we actually took some step in terms of moving away from diesel generators, so we actually started buying from power from the power exchange which reduced our average cost of power in Quarter 4 and now we are setting up solar power plant which is a captive solar power plant which of 2.5 MW capacity which will take care of almost 18 to 20% of our total power requirement. So with that our dependence on diesel power which became a reality in 2013 will actually go away but you're right that other expenses did go up and one of the reasons is power. The second reason for it is also the mix of business, The mix of our business during 2013 had a much larger percentage of solar structures, the amount of business that we did from solar structure did grow from 2012 to 2013 and this is where our cost vis-à-vis zinc consumption because most of the solo structures are galvanized structures, so our cost vis-à-vis zinc consumption went up that is essential raw material for solar structures but I think if you're wanting more details on that, we will be happy to provide you details. Ravi can provide more details on it.

Abhijit Vohra So this raw material you are including in other expenses, not in cost of material consumed?

Suhas Baxi Zinc is part of raw material consumption. And your third question was with respect to interest and I do not actually see where your question is coming from because when I look at a stand-alone company, the finance cost of the standalone company in 2012 was Rs. 19.99 crores and the finance cost of the stand-alone company in 2013 is Rs. 19.71 crores, so it is actually come down. At a consolidated levels it has gone a marginally from Rs. 30.93 crores to Rs. 31.26 crores and that is on account of the fact that in consolidated the PEBS has a bigger portion and their business grew and because their business grew obviously the finance cost will go up a little and that marginal increase is reflected there, so I really do not know where your question is coming from.

Abhijit Vohra Q4 specifically I was asking that it went up from Rs. 3.6 crores this year to Rs. 9.3 crores this year?

Suhas Baxi Maybe what we could do is on this particular question we will come back to you before the call ends.

Abhijit Vohra You mentioned that you are looking at other avenues since railway business is looking a little wary, you are looking at other revenues. If you could just elaborate on that and what plans you have and probably some sort of guidance for FY14 from the new avenues?

Suhas Baxi I think this is a question which I would love to answer and probably answer it in a little detail. If you see Pennar's performance over the last three or four years, I think one essential question which comes from almost everybody outside Pennar is what is happening to your business of railways. Now we are actually asked the question to ourselves internally and we said what are we doing vis-à-vis railways? Look we make cold rolled form sections for railways, for the railway coaches and the railway wagons if it is stainless steel coaches for the stainless steel coaches and for railway wagons we supply the carbon steel structure. Now obviously there was a time when the Indian Railways had a business plan based on which their intake was very high and that reflected in our sales especially in the year 2010-2011 where we had a very high percentage of all business coming from railways but when that particular segment started going down, it started telling substantially on the rest of our business and hence we asked the questions to ourselves, what is our core business? Now Railways is not on our core business or automobile is not our core business, these other segments that we service. Our core business is providing for form steel of the components, our systems are working on projects which require form steel and I think this is where one has to start looking at, what are the other opportunities that we have and structural steel became one important opportunity. So we got into business of solar structures which was I do not say an alternative to railways but it was an addition to the railways business where we got majorly into solar projects and providing structural components for solar projects, PV-based solar projects and this business has already crossed Rs. 100 crores in terms of turnover in 2013, so it has become a significant business as far as company mix of business is concerned. They are now asking what next? What next if I have to generally show a direction what next, I would say the areas that we could very naturally get into and we are getting into is the area which is related to industrial racking system and warehousing solutions. Warehouse buildings in something which PEBS already does, now inside the warehouse we have an ability to create industrial racking systems and the industrial racking systems would come from cold form sections that we make within our factories, so it is going to result in additional capacity utilization if we get into industrial racking solutions but the vision that we have around industrial racking solutions is not to stay limited to just providing the structures for racking solutions but getting into warehousing systems as a technology infusion and addition here, so looking at material handling systems for warehouses, looking at the intelligence of warehouse management systems and combining it with our industrial racking solutions and make it into a warehousing solution business. So I think as a group, Pennar Group does have an ability to construct a warehouse, construct a racking system to make a material handing solution and to make to provide the intelligence for management of that warehouse. So that is the direction that is one of the directions in which we are going as far as a business of Projects and Systems is concerned.

Moderator We have our last question from the line of Ruchita Maheshwari from Nirmal Bang, please go ahead.

Ruchita Maheshwari What I'm asking is if I see your sales growth there is no sales growth compared to year-on-year, it has declined by 15% net sales, your raw material cost has declined which was last year 70.4%, this quarter it is 64.5% whereas the other expenses like employees and other expenses have shot up, if the raw material expenses have not declined your EBITDA margin would have fallen down a lot?

Suhas Baxi There are two ways to look at it I would pick up the threads of the answer from the answer that I was giving to the earlier gentleman vis-à-vis other expenses have gone up. There are two reasons why the other expenses have gone up, one is the fact that there is was a seasonal substantial increase in cost of power as far as Pennar is concerned and second the business mix move toward solar business, when business mix moved towards solar business, we a requirement of material processing in terms of process changed so it does not become an apple-to-apple comparison between 2012 and 2013 because we produce something different and because we produce something which required zinc as part of consumption that cause got added. Solar structures is not just rolling the field and delivering it, there is a fair amount of fabrication involved in the solar structure, so the cost of fabrication would come in the form of cost of people that is where the cost of people went up a little bit. I think the interpretation and the way you framed your question I would probably not frame it that way the way I would say is that we have been able to deliver 2013 results with a different product mix vis-à-vis 2012, this product mix dictated the cost structure to be different and that is the impact that you would see in the results and there you would be right but interpreting it in any other way would be wrong.

Ruchita Maheshwari But if I say if I remove the PEBS business from the consol level, like if I see your standalone level, the core business is not performing, the segmental in the Pennar Industries itself is facing problem, so if somehow that PEBS business is not performing say in the next three month or six months or not down the line then what will be the scenario?

Suhas Baxi Let me look at all the businesses and give you the story for all the businesses. If we refer to Slide #18 of the investor presentation, there are two businesses which have recorded growth - one is PEBS at the rate of 25% and second is Tubes at the rate of 22.8% that is Q4 of 2013 vis-à-vis Q4 of 2012 and the businesses which have shown a decline, there are two businesses which have shown a major decline, one is the business of Systems and Projects and second is the business of Steel Products. The business of Systems and Projects as I had explained earlier, the decline seem primarily on account of Railways where 2012 our Railways revenues was substantially higher and 2013, the Railways revenue substantially lower. So you are right that this business declined. The second business which was declined quarter-on-quarter is the business of steel products where obviously this is one conventional business of Pennar which is seeing a pressure not only on the account of fact that there are competitive forces but it also seen pressure on account of the fact that the conventional market which is the auto industry has seen a decline. So we do believe that there are two business of Pennar where there is a performance pressure on top line but we do also believe that there are three business of Pennar where the top line has the potential for growth and very good growth and only one of the businesses is Pennar Engineered Building System, while the other two businesses are that of tube and industrial component. So I think an interpretation which would say that if you take aside PEBS business from Pennar than Pennar business would continue to fall is actually a wrong interpretation. Yes, PEBS is an interesting and important component of our business but we are now having a new rising star in Tubes and which is growing quarter-on-quarter which is growing year-on-year. We have a stable star in industrial components and we have invested to make sure that that business grows, so these three would become growth drivers for the company going forward. What is important for us is to do to get into businesses which are able to mitigate the falls in railway's business, to mitigate the falls in cold rolled strips business and that is where we are saying we are getting into businesses such as warehousing systems, we are increasing business in solar products, we are setting out a plant in Northern India so the customer based in Northern India would go up. Obviously, the business is under pressure would be understatement. Business is under pressure but I think what is extremely important to see what is the management doing to make sure that that pressure is not sustained and you are responding to it, so in my opinion we are doing a lot to make sure that the pressure on business eases out and Pennar Engineered Building System has the strategy of the company was three years back. Similarly to tube business was the strategy two years back, similarly the strategy this year is industrial components and warehousing systems and solar. So we have thought into businesses which are new and value creating businesses which I do believe is a wonderful job done by the company, in face of the fact that the Railways business came down and in face of the fact that automotive business also came down.

Ruchita Maheshwari Zephyr has invested Rs. 50 crores in your business, so what was the stake they have acquired?

Aditya Rao 25%.

Ruchita Maheshwari And what is the scheme like, are they going to increase their stake and what will be the scene like?

Aditya Rao As of right now there are no plans to increase their stake and it was a placement of shares and it is a stand-alone agreement. There are no implications of future share increases.

Ruchita Maheshwari Your tax rate has increased a lot on a consol level, it is 41.4% compared to 35.2% last year and if I compare with the last quarter it was 30.9%, can you throw some light on that? Plus your other income has also shot up a lot?

Aditya Rao Is this in reference to PEBS alone or for Pennar Industries?

Ruchita Maheshwari For console I'm talking about and your other income has also shot up.

Aditya Rao As far as the tax rate is concerned one of the reason will be seeing it as a PEBS total tax for the year which includes current tax and DTA comes to about Rs. 9.25 crores, the reason for that is very simple - the actual tax is going to be paid out by the company especially considering the fact that the sales tax benefit is a capital reserve will be far lower but there is about Rs. 1.5 crores of deferred tax asset that is coming in here. That is not actually cash outflow for the company. It is because of the way we invest in fixed assets, the way we capitalize and so the actual tax, if you just take the income tax paid that you will find as being 33% itself, what you are doing is, adding the total tax, you are adding deferred tax and DTA and that is why you are getting such a high rate.

Ruchita Maheshwari And the reason for your other income?

Aditya Rao Other income comes to us from something called a sales tax incentive that is derived from the state government, essentially a 50% of sales tax paid by the company is brought back into the company so this is a pre-EBITDA line income figure for us, it comes to the operational income itself, it is a multi-year tax relief that we have received, so it is corporation income as per auditor so we call it other income but what it exactly is, is a sales tax benefit or reduction in sales tax you may say.

Ruchita Maheshwari What is the currently order book for PEBS?

Aditya Rao It's currently at Rs. 250 crores but it is changing very dynamically, we are expecting a lot of large orders in this month, so we will keep you posted.

Ruchita Maheshwari And this Rs. 250 crores, by what time it will be executed?

Aditya Rao All of it will be executed or most of it would be definitely be executed barring, delays or cancellations by September of this year.

Ruchita Maheshwari Can you give some future guidelines for your sales and EBITDA figures for FY14?

Aditya Rao For PEBS?

Ruchita Maheshwari For the console level?

Aditya Rao For PEBS the revenue what we have gone to the board with is Rs. 443 crores in revenue, 46 crores of EBITDA and a PAT of Rs. 23 crores. So for the consolidated level I'll hand it over to Suhas.

Suhas Baxi For the consolidated company we are looking at a turnover of Rs. 1500 crores next year and an EBITDA of Rs. 150 crores.

Ruchita Maheshwari What will be the PAT?

Aditya Rao PAT at the consolidated level will be more than Rs. 60 crores.

Ruchita Maheshwari Your debt is currently right now Rs. 155 crores, so are you planning to reduce it going forward?

Aditya Rao Most of that is PEBS, that refers to long-term and short-term, PEBS is a long-term debt of about Rs. 20 crores on its books but it does also have close to Rs. 40-45 crores which is the cash generation this year. So effectively, all of that long-term loan and a significant part of our cash credit loan will also be repaid, leaving us with just LCs and BGs as loans, so that is why it is a Rs. 150 crores figure. Unfortunately non-cash working capital is an integral part of business in PEBS. We have to issue LCs for raw material procurement and we have to give bank guarantees for advances we get and performance bank guarantees for the projects we execute. So I do want to, however, state that no bank guarantee ever given by PEBS has ever been invoked obviously and so these are not technically debt instruments, they carry a coupon of 2.2% or 2.4%. And to answer your previous question on interest cost, the increment is because of PEBS, what has happened is PEBS has renewed its FCNR loan for the financial year, for the term loan and also the WCDL loan so that is the charge that is taken in the last quarter but actually applies for the whole year so the bank doesn't follow our financial year parameters, so we will have to account for it when they charges, so that is the reason for the increase in the interest cost.

Suhas Baxi And that is primarily in PEBS, I think it was the other gentleman's question before this. Primarily the PEBS interest has gone up and that is also even the business has grown, so to that extent debt is fine. I also want to answer the lady's question in terms of the debt. If you look at the long-term debt that the company has on its balance sheet in fact it is a very small long-term debt. I think we are talking about a little more than Rs. 30 crores as a long-term debt, so if you are looking at what would happen with the long-term debt, I think we are definitely looking at using debt for growth so I think, long-term debt will go up a little at a consolidated level.

Moderator Participants due to time constraint that was the last question. I would now request Mr. Bhalchandra Shinde to add a few closing comments here.

Balachandra Shinde Thank you sir for giving us an opportunity to organize the conference call for you. I would like to hand over the call to you again to give your closing remarks. Thank you very much, sir.

Aditya Rao I would like to thank everybody who participated in this call. I know that we had a small delay at the start and this small delay at the start was on account of a technical reason. We wanted to make sure that the results are posted to BSE first before we start the call but I do believe that even some of the participants later on told me that they have still not been able to access the results so I think we will be more careful as far as this is concerned. We were happy to see that there were some good questions and there were some very direct questions and I think we had an opportunity to talk about the results of the company and also what we are going to do forward. I was really happy with the conversation and I thank you all once again. Have a good evening and a great weekend.

Moderator On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.

This transcript has been edited for readability purposes.