"Pennar Industries Limited Q4 FY23 Earnings Conference Call"

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MODERATOR:	**MR. VIKRAM VILAS SURYAVANSHI – PHILLIPCAPITAL (INDIA) PVT. LTD.**

Moderator: Ladies and gentlemen, good day and welcome to the Pennar Industries Limited Q4 FY23 Earnings Conference Call hosted by PhillipCapital (India) Private Limited.

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I now hand the conference over to Mr. Vikram Vilas Suryavanshi from PhillipCapital (India) Private Limited. Thank you, and over to you, sir.

Vikram Vilas Suryavanshi: Thank you, Ryan. Good morning and a very warm welcome to everyone. Thank you for being on a call of Pennar Industries Limited.

We are happy to have with us the Management of Pennar Industries for question-and-answer session with investment community. The management is represented by Mr. Aditya Rao – Vice Chairman and Managing Director; Mr. Shrikant Bhakkad – Vice President (Finance) and Chief Financial Officer; Mr. Manoj – Head (Corporate Affairs); and Mr. K.M. Sunil – Vice President (Investor Relations).

Before we start with the question-and-answer session, we have opening comments from the management. Now I hand over call to Mr. Aditya for opening comments. Over to you, sir.

Aditya Rao: Thank you, Vikram. I hope I am audible. Please let me know if I am not. My thanks to the moderators and our stakeholders for joining the call today on Pennar Industries Q4 and FY 2023 financial results.

The structure we will follow, we will first cover profitability, our liquidity, and our growth. Post that, our CFO – Mr. Shrikant Bhakkad will present his analysis of our results. We will take questions from all of you after that.

So, for the overview, we have recorded net sales of INR 668.4 crores of 4th Quarter. PBT for the 4th Quarter was INR 30.63 crores. For the financial year, we recorded net sales of INR 2,894 crores and our PBT was INR 98.44. Now this represents growth of about 27.7% in net sales and about 76% in PBT.

Cash profit which we generated for the year prior to payment of taxes was 140 crores and the PBDT was 160.4 crores, which represents growth of 48.5%. We had committed that our PBT would be the highest ever after accounting for extraordinary items in previous years, and I am glad to know that we have achieved that with the PBT of 98.4 crores for the year. And if you look at our cash profit as well, that is also the highest cash profit we have recorded at 140 crores.

The PBT we generated 30.63 for the quarter was at a margin of 4.58%. Now as committed, we expect further improvements in our PBT margin as we continue to move from lower margin revenue profile to higher margin revenue, and this also has a effective increasing our capital efficiency. Our cash PAT for Q4 was INR 41.1 crores, which we generated a margin of 6.15%.

Going to liquidity and capital efficiency, our working capital days as on March 31st was at around 75. Our ROCE for the year was 19.8%, and the annualized ROCE was substantially higher which was good.

Now we had indicated that we had wanted to see a ROCE of about 20% being achieved by March 2023, and again, we are glad to have achieved it just like we hit our profit targets. Our target for the next financial year is to achieve a ROCE of 22% and working capital, our target is 72 days.

Moving to growth drivers, what's going to drive our revenue and our profitability growth in the future, for the next quarter and for the financial year, our PEB division, our US subsidiary PGI, our body in white division, and our engineering services business, all have well-baked business plans which are I am quite with a high degree of confidence, we are sure that they will continue to drive revenue and profitability growth for us for the next few quarters for the next financial year.

We are continuing to work on growth projects for our Hydraulics, our large perimeter tube and our module business, and we are hopeful that once these business unit CAPEX, these assets get commissioned, they will also continue to be significant drivers of our revenue growth once completed.

So, that completes my summary of our performance for the quarter and the financial year covering profitability, liquidity, and growth. I will now hand over the call to Shrikant for his comments.

Shrikant Bhakkad: Thanks, Aditya. Welcome to the shareholders on the 4th Quarter and the year ended financial '23 earnings call. The key matrices for the year, predominantly, revenue has increased from 2,265 to 2,894 crores, which is a growth of 28%.

Broadly, if you see the revenue, this is coming in consolidation as well as standalone. The increase in revenue in standalone is 294 crores and in subsidiaries it is 335 crores, which grows to 694 crores. The increase in the US business is presently our fundamental buildings division what we have and in India it is coming from the BIW vertical and ECD division what we had in the last year.

EBITDA has increased from 188.42 to 254.62 crores, which is 35%, and in terms of percentage, it has increased from 8.31% to 8.8%, which is 50 basis points higher than last year. PBT is at 98.43 crores. We are also happy to inform that the shareholders, we have reached the highest profit after removing the exceptional items which was there in 2017-18.

Just to take you through the movement of the balance sheet and cash flows, movement in terms of PPE is the major when compared to last year to current year. This is on account of the BIW capitalizations which we had last year, 55 crores in India, and in the US around close to 15 crores. Even with the increased sales, we are able to reduce our debtors, which has reduced from 425 crores to 381 crores. That's equals to a decrease of 44 crores in terms of number of days. So, this has helped us get our working capital days as well, which is close to 20 days.

You see the increase in inventory. The increase in inventory predominantly is for the quarter, subsequent quarters that we have taken. In terms of liabilities, the reduction in the equity share capital is due to the buyback that we had in the last year. Overall, in terms of long-term borrowings, there is no movement, and it is from 98.59 close to 98.82 crores. The increasingly short-term borrowings that you see from 489 to 522 days, it is because of the increase in the working capital. Overall working capital number of days has been stable at **(Inaudible) 07:36** and 75 days when you take the gross working capital.

As we discussed, we are in the process of shutting down our lower margin businesses part of it, and this is helping us improve our top line, and which is basically improving the bottom line. Sorry. With better working capital measures, we are also able to reduce our finance costs. Our finance costs as a percentage of our total cost has come down up below 3%, but as we see the revenue increasing, finance cost will be as a percentage of the growth revenue, it will be continued to be 3% and that revenue around 3.3%.

The other income includes foreign exchange fluctuation, duty drawback, income from mutual funds, and certain write back of the old debtors and provisions which we have collected. Our ROC has improved from 14.7% to 19.98% for the full financial year, and ROE has improved from 5.69% to 9.68%.

We are sitting at the highest ever cash balance of 172 crores, and if you add up the investments that we have in the mutual funds, it is close to 199 crores.

So, with this, I close my increments and hand it over to the moderator for the Q&A session.

Moderator: Thank you. We will now begin the question-and-answer session. Our first question comes from Mayur Lehman with Profitmart Securities. Please go ahead.

Mayur Lehman: I just want guidance on what are the key steps we are taking toward the railway and tube to scale up the revenue.

Aditya Rao: The two of the revenue streams you mentioned are railways and tubes. Railways in the current quarter is doing well, and we expect the next quarter also it will do well. But however, as I have been mentioning in the previous conference call, our growth drivers right now are BIW Division, PEB, engineering services, PGIS and subsidiaries. All of them are poised for driving our bottom line growth and our capital efficiency strongly.

Railways, most of it coming from well, the Railway Board. I don't have a lot of transparency into how sustainable these revenue streams are. So, in the short term, it's doing well. It will do better than what it did in the last few quarters in Q1 and Q2, but I don't have sunlight for you in terms of an abject addressable market value proposition for railways which will scale over the next few years. So, as of right now, we are not deploying any additional CAPEX into Railways. Our existing assets capacity utilization increase will result in revenue growth. That's for railways.

For tubes, it's the other end. I think the large diameter tube project is something we find very compelling. We think our markets in India, both in India and as an export market of the US are very, very strong, and we have had an uptick in our tube supplies to US as well. So, I am quite confident that once we complete the implementation of that project, we will be able to see a dramatic increase in our tubes revenue and our tubes outlook. So, that is projected to be completed in this financial year.

Mayur Lehman: And second question on the Ascent business. What kind of movement do you see in the Ascent building business? And which things give you confidence about the future performance above the Ascent build?

Aditya Rao: So, Ascent is a metal buildings business in the US, and it has, as I am sure you are aware, done very well last year, and we expect it to do better than that this year as well. Our capacity increase over there is being commissioned. We are adding a bean line. We are also adding other supportive capital assets. Our order book there is quite strong. It's been growing for the last three or four months.

I know there's been talk of a US recession of a decrease potentially in addressable markets, but from what I said, as I mentioned last time, maybe in the tech sector, we are not in that sector. So, I can't really comment intelligently about that, but where we are present which is a non-residential construction sector in the US, I think it's as strong as it is. So, we expect a very strong Q1 and a very strong financial year. So, just the increase of order book combined with an increase in our capacity in the US will make sure Ascent will continue to do well. So, did that answer your question or?

Mayur Lehman: Yes, sir. And the last question, how do you see the FY '24 in terms of the order book size and the domestic and the international business size, specifically Europe size?

Aditya Rao: So, I will break that up into domestic versus international which is not actually the standalone versus consolidated. It doesn't actually break up that way because there is a lot of exports. But from a market point of view, our order books at PEB at record high.

Our order books in Ascent are also at a high as I mentioned. Our orders in solar are quite strong. Railways also going up, but there is caveats to what we are projecting as far as railways is concerned.

So, we don't see an addressable market decline, which is what results in order book decline, which is what results in revenue sale or profitability not being able to scale. So, in our growth drivers, we don't see a decrease there. Both the domestic and international revenue streams we have will continue to do well, and we are projecting that there is a good strong consistent addressable market and order books that are there for us for both the domestic and the international business.

From an attribution business, I think whatever the percentage we have been seeing, the significant majority of it will be domestic and some of it will be international say about around 30%. So, that trend will continue. We don't expect higher growth in international or exports versus domestic. Both are growing. Both are doing, are performing as per our expectations.

Moderator: Thank you. Our next question comes from Venkata Subramanian Raman with Organic Capital. Please go ahead.

Venkata S. Raman: A couple of questions from my side. A, in the year that's gone by, what are the areas that have kind of made you happy? And what are the areas where you could have potentially improved? A.

Two, there is a fair amount of equipment in the railways addressable area in the domestic market. You having gone through what you have are quite circumspect there. So, you wanted to concentrate in the railway asset on some of the export opportunities or some more value-added opportunities etc. Where are we with respect to that?

And thirdly, we had a small tuck-in in Europe for which was one of our customers who we thought would open up some doors on the aviation side. So, if you can just give some update on that?

Aditya Rao: So, the happy and sad areas of the last year, what was happy was that we achieved the financial metrics. I wouldn't say sad, but I take it more as a challenge. Some of the areas I think that we should work on is further improvements in capital efficiency. I think, aspirationally, 20% ROCE is not appropriate. Aspirationally, our cash profit base of 6% PAT, cash PAT margins are not appropriate. I think we have to head to a place where we are better in terms of margins, add more value to our products, have good long sustainable markets. So, that exercise is ongoing, and it's a challenge.

I think with BIW coming on, with our US business growing, with engineering services increasing, with hydraulics increasing, with large diameter too coming, all of these are high margin businesses. All of these are capital efficient businesses. So, I think our long-term, medium-term growth is to hit 30% ROCE. We are right now quite confident 22, 23, 24, but over the next two, three years steady measured improvements in these two metrics.

So, we push our PBT margin up and we push our ROCE margin up is our goal, and that's the challenge ahead of us, and I am quite, as a team, I can commit to you that we are very enthusiastic about having to work on those areas. I think we are thinking that we will see, it will be hard work, but we are committed to achieving it.

Railways as we mentioned, yes, I have talked with some of our competitors. I have talked with people who are in other businesses, related businesses for the railways, and yes, I definitely see that there is some amount of energy there. But at least the model that we follow, sir, is good strong addressable markets, good strong assets. If you have both of those, you will always have revenue, and you would always have profitability. Whenever we see companies not doing well or failing on revenue and profitability is either because their addressable markets are not strong or their assets are not strong. There is no other reason really for those. Maybe some governance and other issues, but that's not relevant right now.

So, in that vein single customer, Railway Board controlling, the gross capital formation, orders being given, state-owned entities competing with them, the approval basis, RDSO, that's I don't believe that is a playground for us. I don't think that's where we want to build our base.

But as you said, we are exploring our export markets, and the railway business is doing well in a sense that if you were to compare Q1 to Q1, if you were to compare Q2 to Q2, growth is there, and it remains a good margin business. I am just saying that for us it's not just what happens in this quarter or next quarter. I would like us to think of what happens over the years, right? What is Pennar going to look like five years from now? That's a more important question.

On your last question on Cadnum, sir, I am happy to report it has turned profitable. Early days still, but I am quite confident we have a new CEO for that business as well. Mr. Patil who's joined us and from a large multinational risk-based firm, and I think we are committed to growing that business, and it's profitable now, and by the end of the year, I think it will start contributing to our every profitability as well.

But these small businesses and addressable markets right now. Over time they will become more mature. For this financial year, our growth drivers will continue to be as I mentioned PGI, PEB, BIW, engineering services, and by the end of the year, hydraulics large diameter will also start pushing.

So, there are multiple growth verticals, four or five which are looking very promising. All the other books look good and strong. India looks strong. The US looks strong for us in the markets we are present in. So, I think we will do the work to make railways and our aerospace BU into something that follows the same paradigm.

Venkata S. Raman: Couple of more. One, if CFO can report on an ongoing basis the write-offs that we did as of about four, five, three, four years ago, and what the recoveries on that have been, and on a regular basis report on ECL provisions, and then recovery thereof on a consistent basis, I think it will be useful.

Aditya Rao: Shrikant, do you want to answer when you can give that?

Shrikant Bhakkad: Yes. We actually report those numbers as part of other income does that cover up, but we will give you a broad number then I think this 13 crores is what the number that we have which we have collected whatever we have provisioned earlier year, and ECL provisions continues to be higher. So, you will have this because of the by standard where it is, you will have the higher provisions which will come in the current year as well, but by next year this will moderate off, and you will not see the further increase in those provisions again.

Venkata S. Raman: And lastly, Aditya, on the Engineering Services side, which is the software support that we provide out of Hyderabad and Vijayawada, how are the numbers scaling up there? What kind of additions have you seen? That looks like a fairly large opportunity. What kind of focus do we have there? And what are the challenges there?

Aditya Rao: Good question, sir. I think as you mentioned, it is a key focus area for us. The markets we are typically chasing and that includes building information modelling, structural engineering, automotive BIW design, and also plant engineering. So, those are the four verticals where we provide engineering services, design services, product development services. It's doing very well from a percentage growth point of view, but both all of these together represent from a revenue point of view only about 70, 80 crores. So, it's small even though the margin is substantial.

Our goal is that a lot of these markets are quite big, right, that's why I say addressable markets are to be big. If your addressable market, if your quote activity is high, then your order book will be high, then your revenue will be high. So, on that basis, we are right now expanding our business development teams both in Europe and also in India. US right now we are not, but that will also come into play over the course of this year. But there is a lot of work in progress happening in this business.

But one thing I can tell you right now, we are very bullish about it. It's going to continue to see very good growth. I am proud of the job that Suman and his team have done on this business, and I am sure this will also become a, it's a high margin business. It's about 20%. I am certain this will start becoming a key profit vertical for us very soon as well. But yes, that's the status right now, sir.

Moderator: Thank you. Our next question comes from Gaurav Agarwal with 91 Capital. Please go ahead.

Gaurav Agarwal: Sir, if I see the difference between your consol and standalone on the quarterly basis, so last quarter the revenue was from the subsidiary. It was around 156 crores which has been reduced to around 113 crores now. So, one thing is how much of this difference between consol and standalone is ready to be engineering business sitting in the Ascent USA?

Aditya Rao: So, most of the change that you see is because of Ascent. So, let me describe the why of this in a little more detail. So, in India we follow the financial year which is Q1 starts in April and Q4 obviously ends in Match, as you are aware I am sure.

So, in the US, all of us are very follow and frankly business they are usually January to December is the model that is followed. More importantly, Q4 tends to be the strongest quarter for us in India usually, not in India for most Indian companies, whereas in the US, Q4 or what we call Q4 is actually Q1 for them is a time to take stock, make budget plan. There is also a lot of inclement weather at least in the market that we are present in. So, effectively Q1 tends to be the weakest thing. So, it's a within a year cyclical variation that you see.

Most of our subsidiary income as I said comes from PGI, and you will see this number performing better this year, substantially better this year than last year. And at this point, I am on the basis of our order book being where it's at, which is higher by almost 30% from just two months ago, our US order book, I am not projecting a decline in this year's Ascent revenue, but you will see these quarter-quarter variations because the strongest quarter for India is actually the weakest quarter for US businesses.

So, that's the reason you see the revenue attribution moving around. Going forward, I think we have done the math, and we think 70%, 75% will be India, 25%, 30% will be outside India. That's what we have typically seen from a revenue point of view.

Gaurav Agarwal: And sir, just to get a bit more clarity, so last year in FY '23, full year subsidiary numbers are 600 crores revenue. So, when you say they will do much better, so can it be a 1,000 crores business in FY '24?

Aditya Rao: I will not be giving guidance, but I can assure you we will see double digit growth in both our standalone and our consolidated businesses, so which kind of answers your question, but yes.

Gaurav Agarwal: And sir, coming to your margins again on the subsidiary side, there is a lot of variability in margins. So, if I see the EBITDA margins of this subsidiary number, it was, let's say, 4.8% in Q2. Then it was 10.7% in Q3, now this is 12.7%. So, now the revenues have declined, but the margins are improving. So, sometimes it doesn't add up. Even the employee expenses vary so much. The other expenses vary so much. So, what exactly is the nature of business in those subsidiaries?

Aditya Rao: So, our US subsidiaries sorry, our international revenue has always been high margins. I am not aware of any revenue stream we have which is outside India which is low margin. That's point one. So, any variations you see are just quarter on quarter scale impacts which is as I said the Q4 to Q1 variations that that does exist.

From a point of view of what do our margins revenue wise what's happening and our margins are going up, that is a stated intent for us. We have, as you may be aware, exited our water EPC business. We have exited our retail business. We have exited our MMS business. These are all large contributors hundreds of crores, right?

And the reason we have done this is because as we finish our order book in these businesses and get out of them, yes, some, there is a minus from a revenue point of view, but they aren't businesses which we for whatever reason we have not been able to generate sustainable margins or good growth margins in that.

We have chosen where we want to grow our businesses, and those are doing well. So, since these are higher margin, you will see impacts where our margins consistently tend to improve. That's something that's a statement of intent for us, and not just one quarter, if you see the last, I would say, the seven, eight quarters, you would see that trend, and that trend will continue. As of right now for the next financial year also, we are focusing on margin improvement.

Revenue also will increase. I think we have several growth vectors in play as I had mentioned. So, our PEB business alone is projecting from last year to this year we are looking at, even from a run rate right now point of view, it will be at least a 25%, 30% growth. So, I am optimistic that you will continue to see revenue and profit growth on a yearly basis. Quarter-on-quarter, US versus India, that I don't see that as something as a concern.

Moderator: Thank you. Our next question comes from Ankur Kumar with Alpha Capital. Please go ahead.

Ankur Kumar: So, my question is on this, our plan to increase margins and reduce low margin products. So, what kind of profit growth can we expect for the coming year?

Aditya Rao: We will not be giving guidance, but I can comfortably commit double digit growth for Q1 and for the financial year, next financial year.

Ankur Kumar: And would that mean as in our revenue will continue to go down because in this Q4, it has gone down, because we are looking at high margin products?

Aditya Rao: No, our revenue will go up as well. We will have for Q1, we will see double digit growth in revenue compared to last year, and we will also see growth in profitability. For the reasons I had explained previously, that's the Q4 impact. And also, the revenues that we are dropping away, as we have said, we are removing the low margin business. There is an end to that, right? We have almost exited MMS business. It's almost done. So, the future impacts of these are quite muted. So, I don't believe that you have to worry about our revenue going down. Revenue growth is important. It's a stated objective for us that we increase our addressable market, thus increasing our asset base, thus increasing our revenue. And that's how we increase. You can't keep increasing margins also forever, and margin increases are extremely difficult. But I can commit that whatever revenue we add will be good quality, sustainable and good margin revenue. So, we can commit to revenue growth next quarter if that's your question.

Ankur Kumar: And sir, on the balance sheet side, our debt is increasing, and also we have not been paying dividends for last couple of years. So, any thought on those two things?

Aditya Rao: Our overall debt is back to my knowledge.

Shrikant Bhakkad: Overall I will just take you through borrowing number. In terms of borrowing, 19.59 crores to 19.82 crores. That's the long-term borrowing. That’s flat. In terms of borrowing, is increased of 489 crores to 522 crores. So, when you look at these numbers, you have to look at because all the current liabilities numbers are predominantly working capital numbers and working capital will grow as the revenue grows up. So, what you will have to see here is finance cost as a percentage of our total revenue, which we intend to cover between 3% to 3.3%. That's a broad range that we want to give because in certain months, it does change. So, the overall borrowing numbers are flattish or we have not increased our borrowing substantially.

Aditya Rao: And to your other questions on we generate a lot of cash also, Shrikant, I think it's 199 crores. So, almost, let's say, close to 200 crores in cash also has been generated. So, debt equity also is looking better. Dividend corporate actions, the Board will take a call, sir. We are reviewing, and if we have anything, we will share. It would not be appropriate for me to say anything on that. But we have done buybacks. I would say we have completed a series of buybacks and the last buyback we completed was about one and a half years or one year ago.

Shrikant Bhakkad: This year.

Aditya Rao: This year, last year itself, and we did that at an average price of about 45. We are substantially higher than that. So, I believe we have had some success in our corporate action systems, but yes, anything on dividends, anything, as the Board has decides, I will share with you.

Ankur Kumar: And sir, last thing on this ROCE calculation. We are saying that we are at 20%. So, would be great if you could put that calculation all in the PPT going forward.

Shrikant Bhakkad: Okay. That's somehow it's there. We will include that. It is EBIT divided by the working capital that has been employed. I will share you the calculations as well. We will give the calculation to you. EBIT divided by capital employed. We will get back to you.

Moderator: Thank you. Our next question comes from Deep Gandhi with Astute Investment Management. Please go ahead.

Deep Gandhi: So, sir, most of my questions are around this PEB division. So, initially, I just wanted to check with you that in the quarter, so if I see your quarter-on-quarter revenue in this division, it's actually degrown, and we have also seen some reduction in margin. So, if you can highlight what was the reason for this?

Aditya Rao: Oh, yes. So, as I mentioned that would be our US business versus overall, but what I can tell you is our PEB business is actually we see it as a star performer in this quarter. I mean, revenues in India are at the highest level ever. Margins have also increased substantially. As I mentioned, Q1 is a time to take stock in the US. We also have PEB in the US. Even there, the order books are at a high. So, I would say, you look at it in terms of the year in question, sir, but from a quarter point of view, Q1 for the US is always going to be weak financially. In India, it's the other side of the picture as well. Q1 is actually looking, sorry, Q4 has been quite strong, and Q1 is even stronger.

Deep Gandhi: So, sir, can you break up this number in terms of what was the Indian revenue specifically for PEB and the margin so we can get a sense what has been the growth?

Aditya Rao: Sure. Our revenue for the last quarter for you need for India versus US?

Deep Gandhi: Yes.

Aditya Rao: Do you have those numbers?

Shrikant Bhakkad: On an average last year we did the US, US$7.25 million, currently it's fallen to 6.5. So, that's the decrease that you see in the US business versus the India business actually overall year number where we have increased from 554 crores to 725 crores, which includes the other stop for us, which is if you take only PEB business, it is 396 versus 590 in the India.

Deep Gandhi: So, this number you have given for Q4 FY '23 versus Q4 of FY '22, right?

Aditya Rao: Actually, the 590 crores is for the full financial year, PEB business in India.

Deep Gandhi: And what kind of margins you do in the Indian business?

Aditya Rao: We generate, well, the operating contribution margins are about 14%, and we expect to improve those substantially. So, another way to look at is any growth that comes in comes in at a double digit from a profit drop point of view.

Deep Gandhi: This 14% is only for the PEB division, right? The margin?

Aditya Rao: That's correct. Yes. That's correct.

Deep Gandhi: Sir, my next question is so you have shared this number that you have 750 crores of order book for PEB. So, if you can highlight how many the number of customers from whom you have got this 750 crore orders?

Aditya Rao: So, it's pretty diverse. As of right now Reliance is about 200 crores just from Reliance, but it's actually 750 crores is as of March 31st. I apologize if I misspoke. On a right now basis, it's closer to 830 crores. So, it's a lot of customers. It's not one or two or three or even four. I think you would see…

Shrikant Bhakkad: More than 40.

Aditya Rao: Yes. More than 40, and as of right now we are active at 30 projects across India. And in the US also, it's around 10 sites right now. So, yes.

Deep Gandhi: So, if you can just share the number, how much of this 830 crores is from say top five customers?

Aditya Rao: I will try to get you that information. A lot of times, our customers don't want. I mean, they are okay with us telling the market that we have received orders from them, but the exact order value is something we sometimes are informed, and I do need the clearance to give you customer wise breakup. But my request to give us some time to check and get back to you on this. However, the overall numbers, which is 832 crore order book and many customers is what you can take right now.

Deep Gandhi: Sir, my next question is if you can also highlight what kind of capacities you have for PEB currently, and what was your utilization in the current financial year?

Aditya Rao: So, capacity right now is about if you include everything like India and the US, we are at about 7 **(Inaudible) 37.54** capacity, which means you can output out close to about 8,000 tons to 9,000 tons a month. I mean, if you want to look at it at per ton, it's not fully appropriate to take only the tonnage number because it's a system, right? It's not just product. It's just not a weight of a product, and it's there's different kinds of products that go into it. It's a system. It's engineered. It's structured engineering.

But from a capacity utilization point of view, I think that was your question. Capacity and capacity utilization, we are at around 65%, 70%, and we are trying to bump that up more. We are adding capacity as quickly as we can also frankly in PEB because the transference from order book to revenue can be a lot better than it is right now. That's one of the reasons we are very confident of projecting growth both in revenue and profitability for PEB and other businesses. It's just the rate at which we have, we are booking orders, and our current order book is quite strong, and what we are seeing in the market is that this will persists through this financial year. So, we are quite confident.

Moderator: Thank you. Our next question comes from Darshil Pandya with Finterest Capital. Please go ahead.

Darshil Pandya: Majority of the questions answered. Just one question. What's the total order book across segments as of 31st March?

Aditya Rao: I don't believe we have that number. So, I will have to add PEB plus Railways plus solar plus other. I would have to add that up, but rather than, allow me to get back to you. But it's a large number. It would be…

Darshil Pandya: Yes. As of last quarter, it was 2,500 crores as said by you.

Aditya Rao: Yes. It would be in that framework. Do bear in mind that only 50% of our revenue is order book base. The other is what we call scheduled revenue. So, it's an indicator for where our revenue is going, but it's not absolute. You will get half, half of the picture of where our revenue is going.

Darshil Pandya: Absolutely. And sir, one last question. That was on the last call you said that maybe 5% of PAT you would aspired a year or a year half. So, what's the guidance now?

Aditya Rao: So, you would have seen consistent progress on that. I mean, in the last quarter, our PBT margin was 4.58%. We expect to grow that in over the course of this year as well. So, one of the things that we can, I think, we are making on these calls, we typically make commitments. One of the things we are going to hard commit you is that we will continue to work on margin improvement. It's a stated goal, and we are hard at work at making that happen. So, yes, aspirationally 5%, which we will as I said 1.5 years is what we had said in the last call. We are well on track to achieve that.

Moderator: Thank you. Our next question comes from Ankur Agarwal with RC Wealth Solutions Private Limited. Please go ahead.

Ankur Agarwal: Sir, on consol basis your revenues are down a bit but employee cost has gone up from Rs. 59 crores to Rs. 81 crores, what is the reason for that?

Aditya Rao: So, employee costs are getting higher. See, the way that we have told, revenue is decreased because of the cyclical business in the US in the Q1 or the PEB business has come down, but in terms of employee benefits, we are more or less the flat in terms of last year to current year.

If you see March '22 versus March '23 is what you are seeing quarter-on-quarter number, but this is already increased the revenue in the last quarter. So, it is already increased to 70 crores, and from there it has increased to 81 crores.

So, employee benefits, we are deploying new machinery, new manpower for our expansion, and so that's the reason we have hired certain people, and that's the cost that has been included here.

Ankur Agarwal: Is it regularly going to increase or will it be stabilize at this level?

Shrikant Bhakkad: And we have given out one-time bonuses for the profit share in the US, and that has been achieved in the Q4. So, that profit…

Aditya Rao: It's not going to keep increasing. It will be flattish from now.

Ankur Agarwal: And your other expenses have reduced a lot is there any cost cutting involve or is there any one-time gain?

Aditya Rao: See, other expenses broadly consist of job work charges, freight costs, and the stores is paid consumption that we had. So, there is a decrease of the provisions that we have made from last year to current year by around 10 crores, and there was also job work and erection expenses which is reduced from last year to current year. And as we have stated, our objective is to increase the margin expenses. So, we are carefully looking at each cost and spending that amount.

Moderator: Thank you. Our next question comes from Vignesh Iyer with Sequent Investments. Please go ahead.

Vignesh Iyer: My question is on the two orders that we received. One, if I am not wrong, on 17 Feb for 850 crores and 8 May for 680 crores, and both the orders the notice stated that it has to be executed within six months. So, just to understand the nature of those orders, so it is more on this margin accelerator orders like PEBs and BIWs, or it has some orders related to Railways and all?

Aditya Rao: So, I can't give a specific orders because we do give out press note describing our overall order book. But typically, the orders book we declare is a blend. So, it consists of high margin or what you would call higher margin businesses, which is where we get an operating margin of almost 28%, but also includes some of the lower margin revenue. It's a blend.

So, I wouldn't be able to commit on the entire amount that we have mentioned, but what I can tell you is with the trend is that we are only accepting orders in across all of our businesses which have a certain market, certain margin profile, which allows us to scale, allows us to meet our overall PBT requirements, and if it doesn't fit that, as it has not in some of our revenue streams, we have over the last year, it's over now. We are not exiting any other business, but we have exited business in the past which don't fit that profile.

So, specific to order book, we declared I will not be able to comment on the margin profile because it will be a blend, but it would be what the overall margins you see for the company what they are at, it will be at the same profile.

Vignesh Iyer: Right, but just to understand that the blend has improved, right? I mean, we are going more margin accretive businesses than we used to, right?

Aditya Rao: That's correct.

Vignesh Iyer: And what another thing is we have made a PBT margin of 4.58% for quarter four. Just to understand it, we will maintain this is more like a base, right, moving ahead quarter-to-quarter?

Aditya Rao: So, your question was Q4, 4.58%. That is accurate. What was your question on our PBT margin?

Vignesh Iyer: I want to understand going ahead for each quarter, it will be more or less like a base, right?

Aditya Rao: That is our goal, yes, I can say that. And yes, for Q1, what I tend to provide is not quite guidance, but what I do tell you is if you ever see a decline in our profit margin, I will absolutely guide you, but as of right now, our Q1 looks stronger than our Q4. So, that should answer the question. So, yes.

Moderator: Thank you. Our next question comes from Gaurav Sachdeva with Further Investments. Please go ahead.

Gaurav Sachdeva: My question is just regarding the EBITDA margins, which is 10% in this Q4. Just I want to ask can we maintain this EBITDA margins for the whole financial year '24?

Aditya Rao: Our EBITDA margin is not something we target. We target net PBT margins. EBITDA obviously differs from that in terms of added depreciation and interest cost as well. So, we don't have an EBITDA target in mind. So, we will not be in a position to commit that we will maintain 12%, but I can, I don't see a reason how, why we would decline.

I mean, our depreciation is on the higher side, and our interest costs are stable and tend to be around the same range. So, as Shrikant said, a few questions ago, 3%, 4%, so if our PBT margins are going up, then, obviously, that can't happen with our EBITDA margins going down, right? So, it's a calculation. So, yes, I can say that we are not looking towards substantial EBITDA margin declines, but what we are committing to you is the net profit margin.

Gaurav Sachdeva: And sir, in how many years do you feel we can achieve a milestone of 4,000 crore revenue for the company?

Aditya Rao: We will not be able to give revenue guidance, but the projects we put in place already gives us an ability to reach that. So, we just had to execute right now. So, revenue comes from, I think large, addressable market and having assets as I mentioned, right? So, our markets are all quite big, and that capacity is increased to a point right now also where that isn't unachievable. Yes, but that is the goal. So, more than that also, it's not just four. We are not going to sit still at 4,000 crores, but yes, over the course of the next 1.5 years, I am sure you will see us achieve that from around break point of view. 330 crores I think is our math. 330 crores per month gives us 4,000 crores. We had it what to achieve it, and in the medium term itself, you will see us achieve that on a monthly basis.

Moderator: Thank you. Our next question comes from Deep Gandhi with Astute Investment Management. Please go ahead.

Deep Gandhi: So, just continuing with my previous question. So, you had highlighted PEB capacity, the total capacity which is, so I had missed that number. if you can highlight that again?

Aditya Rao: Could you say it again? You said PEB capacity?

Deep Gandhi: Yes, the total capacity which you have in PEB division currently. I missed that number.

Aditya Rao: Yes. So, 8 beam lines, and as I said, you can apply a multiplier per beam line of about 1,000 to 1,200 tons. But it depends a lot on the kinds of projects we are undertaking, how much performing tonnage there is, secondary framing tonnage there is, primary framing tonnage there is. So, it's not an easy calculation, but it's not a standard calculation, but I think I mentioned 8,000 tons to 9,000 tons as a capacity, and that's where we are at right now. That's a format number, sir.

Moderator: Thank you. Our next question comes from Hari Kumar, an investor. Please go ahead.

Hari Kumar: My question is regarding this. You were focused on specific segments, like we will be market leaders or company is more effectively with intrinsic players, both nationally and internationally, sir?

Aditya Rao: Yes. In the PEB we are growing...

Hari Kumar: Also, are we focused on the global market apart from PEB? Apart from PEB.

Aditya Rao: So, we intend to be a market leader in all of the addressable markets we are present in. So, yes, that applies to PEB. We are right now number two or number three in India. It's between us and Interarch**.** Kirby is number one. Our goal is to be a market leader doesn't necessarily mean number one in terms of revenue. We want to be a cost market leader. We want to be a profit market leader.

So, that is absolutely on our target profile and we intend to achieve that, and that's our goal. We do need to be relevant and if your market share is 5%, 4%, then you can't be relevant. So, both internationally and in India. I was talking to our CEO in our US business yesterday who is here, and he has also told me very similarly, that we have to target market leadership in the US as well. And the US market is much, much bigger than Indian market. It's about five times the size of the Indian market from a PEB point of view.

The same applies for Hydraulics. The same applies for our Body invitive division, which is why I am saying these are such large addressable markets that we have plenty of headroom to grow. I mean, our competitors are all not a great thing to innovate that, but it's also good in a way, but all of our competitors are bigger than us. I mean, Kirby is two, two and a half times our size. In Hydraulics, Wipro, they are many times our size. BIW is a multi thousand crore companies exist in India in that field. So, now our markets are not going to prevent us to grow. We just have to make sure we set our assets up, build good operating teams, get good orders, execute well, and we will scale revenue tremendously. So, that's our base plan for over the next few years.

Hari Kumar: But you are international focus also.

Aditya Rao: Yes. What I am saying applies to domestic and international for the purpose of standalone, consolidation, yes, but everything is wholly owned. So, really for us we feed the markets whether it's being serviced through exports out of India or we are manufacturing. It's a market. We are pretty, it's very centralized from a point of view of seeing how growth comes.

Moderator: Thank you. Our next question comes from Dilip Kumar Sahu, an investor. Please go ahead.

Dilip Kumar Sahu: So, Mr. Aditya, this is regarding the renewable order from a power PSU. Last Concall, you said that there is some glitches. It will take some time. So, are those things ironed out? And is it executable in this financial year, this large power sector PSU renewable order that we got sometime back?

Aditya Rao: Yes, sir. That is accurate. We had a large order that came in. The execution of that order has started. So, revenue on that has started. I don't believe it will complete in this financial year. That's my current understanding. So, I do not believe that order will be a powerful driver of our revenue or our profitability in this fiscal, but revenue started. It's very capital efficient I could say, because the way the working capital versus the profit is set up. So, I am quite confident that the revenues will start coming in. But we don't currently plan for it to be a big driver or anything in this financial year. But revenue started. That's the difference from last quarter to this quarter.

Dilip Kumar Sahu: And it's a very unique different kind of project from what we have been doing traditionally. So, is the execution going smoothly? Or is it like what is the learning there?

Aditya Rao: Yes. It's a good question. My request, allow me to say that it is part of our margin profile, and it's not very different from what we have done historically, but yes, we are moving towards businesses which are manufacturing, engineering businesses which are higher margin, which are scalable, which don't depend on government or PSUes. No offense to them. I am sure are there many companies bigger than us who do, who are very good at those things and more respect to them. But for us private fixed capital formation, diverse number of customers, customers in automotive sector, customers in the infrastructure space, customers in the engineering space, that's what we focus on, and that market is big enough. If we just execute in those markets, it's enough. So, we don't need these PSU orders. So, going forward, no, we don't intend to book to grow those order, that order book.

Dilip Kumar Sahu: So, a lot has been spoken about employee expense and all that. My simple query is in '22 we had 9.1% employee cost to operating revenue. At '23, it is 10.7%. Q4, 12%. My question would be what would be a base compared to operating revenue? Is 10% is a good base or is it going to be higher?

Aditya Rao: It would be lower than 10%. This quarter is an aberration because of what Shrikant had also mentioned. Ascent did very well to the profit share which was recorded entirely in the 4th Quarter. That's the reason for it. You will see it did below 10%. I do want to mention, we don't have an abject control because our businesses are different, right? So, our engineering service business, our employee cost is 35%.

So, it's very difficult for us to say that this we will keep it at 9%, keep it at 10% because different businesses respond differently, which is why what is important for us is that we monitor ultimately what are we getting from a capital efficiency point of view and from a PBT point of view. So, we have PBT targets. We have contribution targets. We have ROCE targets. We have CROCE, contribution ROCE targets.

So, those if we hit, we will be in good shape, and we will cover our base goals, which is the measure of performance and profitability, liquidity and growth. All three will come in. If you say 10%, then if you get it, you get a really good engineering order, which is a 20% margin, but the employee cost for that if you execute will rise to 25%. Should we do it? Not overall, but for that order, right? So, we should still do it, right? So, that's the metric we would use.

So, monitor is on PBT, monitor is on capital efficiency, monitor is on growth rates. This absolutely should be monitored but do give us some leeway to take the right decision, right cause on this as the revenue growth profile, as revenue profile of a company also goes towards the higher margin business, which does mean higher employee cost also, both in the US and in India.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Aditya Rao: Thank you. We are grateful for your support. We would not be able to do this but for you, your candor, and your guidance. I am thankful for this. We are committing that we will continue the path here on and continue to scale revenue, profitability, and capital efficiency. Thank you everyone for your presence today and fair questions.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.