"Pennar Industries Limited Q4 FY16 Earnings Conference Call"

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MODERATOR: **MS. DEVANSHI DHRUVA – DOLAT CAPITAL MARKETS PRIVATE LIMITED**

Moderator: Good Day, Ladies and Gentlemen and Welcome to the Pennar Industries Q4 FY-'16 Earnings Conference Call hosted by Dolat Capital Markets Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Devanshi Dhruva from Dolat Capital Markets. Thank you and over to you ma'am.

Devanshi Dhruva: Good Morning, Ladies and Gentlemen. We Welcome You All on behalf of Dolat Capital to Q4 FY16 Earnings Call with the Senior Management of Pennar Industries. On the call we have Mr. Aditya Rao -- Vice Chairman and M.D. and Mr. Krishna Prasad -- CFO. I would now like to hand over to Mr. Aditya Rao for his initial comments, after which we will move on to the Question-and-Answer Session. Over to you, sir.

Aditya Rao: Thank you. To all the Stakeholders of Pennar Industries, it is a pleasure to have you with us today on the 4th Quarter and Financial Year 2016 Performance for Pennar Industries Limited and its subsidiaries Pennar Engineered Building Systems and Pennar Enviro.

For the financial year in question, we had consolidated net sales of Rs.1,310 crores; the gross sales were Rs.1,484 crores; we had EBITDA of Rs.1,51.3 crores and net profit of Rs.43.9 crores; the cash profit for the company was Rs.65 crores for the period. The comparative numbers for the last financial year showed a growth of about 2.4% on gross sales flattish, 3.1% in net sales, 25.2% on EBITDA and 22.1% on the net profit. For the standalone company, the financial year had sales of Rs.988.0 crores compared to Rs.954.1 crores for the last financial year, growth of about 3.6%; the net sales were Rs.873.7 crores as opposed to Rs.829.4 crores which was a growth of 5.4% and the EBITDA was Rs.80.9 crores as opposed to 70.4, growth of about 15%, the EBITDA margin was 9.3%. The net profit for the company was Rs.27 crores as opposed to 21.3, growth of 26.7% and the net profit margin was 3.1%.

For the financial year in question, most of our business divisions were able to bring in growth, except the Steel Products business unit, that is one which degrew and it was primarily due to pressure in terms of the position of MIP which resulted in a price increase in the local market switch made our products and comparative for that business. But that business which did decline was the lowest margin vertical of the group in question and we believe that with the addition of our Special Grade CR business we have overcome this growth issue and we do believe that this Steel Products business unit will have come back to growth as of this first quarter. For the fourth quarter, the division had sales of Rs.91 crores and we had received orders in our Forms section business from Hamon, Helious Infra and other companies. We expect Special Grade CR Project coming online to have a big impact in terms of these numbers and now that it is already operational in this financial we expect to add about Rs.100 crores in revenue at over 10% EBITDA.

The next business division is Tubes and this has been flattish this financial year. We had a gross sales of about Rs.150 crores for the division. Our market share in this business unit is quite small in both ERW and CDW. The amount of growth that is possible in this vertical is quite high. We believe that with the CAPEX of the business we are undertaking we will be able to scale this business quite well.

From a margin point of view, we did have a tremendous improvement both for the quarter and also for the full financial year. For the quarter in question, Tubes EBITDA grew at 23.2% comparable to the period last year and we believe that this is primarily because of the increase of CDW Tubes business as opposed to ERW. So while the revenue looks flattish, the share of value-added products has increased which has resulted in our Tubes business doing lot better.

Industrial Components is a business unit which actually degrew last year by a small amount of about Rs 0.2 crores. It was a surprise to us primarily because of late event drops in orders in the fourth quarter. So Industrial Components remains the only business in the standalone company and also in the consolidated entity Pennar Industries which had degrowth in the fourth quarter compared to the same period last year. So for the fourth quarter FY15 we had sales of Rs.17.8 crores and for this financial year fourth quarter we had Rs.17.6 crores; however the EBITDA manage to grow at 7.1%, primarily because we have larger export orders and the Hydraulics business also had increased sales and that is at a higher margin.

The next business vertical is the Systems and Projects business which did exceedingly well for the quarter. While the revenue growth itself was only 5.4% compared to last financial year to this year from Rs.81.7 crores to Rs.86.2 crores, the order book has been extremely attractive and aggressive both for Integral Coach Factory, for our Solar business and also some new orders which were received from RCF we are quite bullish on the segment, both the Railways and the Solar businesses grew very well in this financial year and we expect similar growth in this financial year as well.

Coming to the subsidiaries, PEBS has done well in the fourth quarter; we have had substantial scale up in terms of revenue and profitability as well, largely due to some higher margin orders which we have been executing in our warehousing and also the L&T's Kannur Airport. So, with the current order book at about Rs.424 crores and of course the new Baroda plant being up and running and also an acquisition we intend to make in Engineering Services in this business vertical, the PEBS management is very bullish in this financial year in terms of the growth strategy and what they intend to achieve.

The last business unit is Pennar Enviro. It is a new business vertical which we had started about two years ago. The growth has been very high but that is primarily because of a low base effect. For the year in question, Pennar Enviro recorded about Rs.100 crores in gross sales, about Rs.98 crores in net sales. Consequently, there have been expansions in terms of EBITDA and profitability as well. We expect Pennar Enviro which has an order book of close to about Rs.300 crores to do better in this financial year as well and we think strong double-digit growth will happen in this business division in this financial year.

With that, I would like to hand it over to the moderator for any questions you have on Pennar Industries or its subsidiaries. Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Anubhav Gupta from May Bank. Please go ahead.

Anubhav Gupta: My first question is for this Steel Products segment. Obviously, the revenues were flat because of low Steel prices. But could you tell us how the volume growth panned out in FY'16? Since industrial demand would be picking up, what is the outlook for FY'17 & '18?

Aditya Rao: For the whole year in question, the business unit did about 110,000 tons. From a capacity utilization point of view, that is actually quite low, because the rated capacity for our CRSS and CRFS businesses which are based out of this Steel Products BU is quite high, close to about Rs.200,000-220,000 tons. However, I think we will see a good uptick in terms of both the tonnage and the revenue numbers and quite frankly even the EBITDA as well this financial year, because for the last few quarters we have been talking about the Special Grade CR implementation where we make range of high value added Alloy Steel such as Chromium and 16 MNCR-5 and high Carbon Steels and several others. We manage to put together a very good team. Capital expenditure has been completed. Our new Hydrogen annealing capabilities are up, our new Auto Gauge Control Systems are up. We have already started seeing this increase come in and conservatively we would project between Rs.70 crores and Rs.100 crores growth number for this business unit in the next financial year which would be a strong growth, and all of this revenue will come in more than 10% EBITDA.

Anubhav Gupta: Just to clarify, what kind of utilization levels you are seeing in this financial year?

Aditya Rao: The Special Grade CR project that I am speaking of will add about 1,000 tons per month in terms of our ability to scale up. Aggressively, we think we can go up to 2,000 tons. But in terms of what we will commit to you, we think we will see for the whole year on average 1,000 tons per month increase which should come to about Rs.6-7 crores per month, so about Rs.84 crores for the whole year. We are very confident of doing this but, from a capacity utilization point of view it is still going to be low, we never going to reach 70-80% capacity utilization this year in our Steel BU.

Anubhav Gupta: In the Tubes segment, if you could tell us about the volume which you witness in FY16 and outlook for FY17?

Aditya Rao: Volume numbers are roughly comparable; we had close to about 26,000 tons of output in this financial year and that compares out to about 24,500 to 25,000 tons last year; however, because of a couple of factors – one, the raw material price was lower than the average last year for about 3 out of the 4 quarters, in the fourth quarter we did see MIP price coming in, so there were corrections of that number if you will. But because of lower price discovery in terms of that we have seen low revenue numbers. However, the EBITDA margin has scaled up to a very high number. So we had almost close to double-digit improvements in EBITDA in the Tubes business vertical. I think with further CDW capacity expansion that we are bringing in this year, margin growth in Tubes should continue.

Anubhav Gupta: What is your sense on the overall pick up in the industrial space for the related products in Systems and Projects, Tubes… are you seeing more enquiries or do you see any pick up in this space from your clients?

Aditya Rao: Systems and Projects is the rock star business unit right now in the company and in the group, it generates very good cash flows, very good ROCE and has had good revenue growth this financial year. So, from that point of view, yes, I think our order books for Railways, for Coaches for the next two years and in this quarter we have booked a substantial number of Wagon orders as well, we will be revenue-ing out this as well. Solar is a good growth story in India right now. Consequently, we are seeing a substantial expansion in our Solar order book and also revenue from a year-on-year basis and also for the next few quarters. That business unit has not had to stretch to meet growth targets, to meet profitability. If you were to ask about the commodity Steel business, as I said, because we had done CAPEX and we are entering a new market, that market, that business unit will see high growth again because we are adding a substantial amount of tonnage at a good margin. The Tubes business I think is a very interesting growth story for us. We have struggled to bring in substantial growth in that business from a top-line point of view over the last let us say four or five quarters. But we have been very successfully improved the margins. Again, similar to what is happening in Steel Products business unit. If we are able to significantly bring in our CDW Tubes capacities, if we are able to expand sales in that business, the impact that has on the bottom line is much higher. So, I feel the market for Tubes also is good. Industrial Components is the smallest business unit in the entire group, even including the subsidiaries at about Rs.67 crores. So I believe that we will have to build a proper growth story for it. We believe we can reach that Rs.500 crores number in five years time, but there is a lot of work ahead of us for the Industrial Components business. But for Industrial Components I do not believe we are constrained by the market in anyway; our revenue growth and profitability growth would be a function of how well we do CAPEX, how well we are able to gain market share and how well we are able to execute these orders that we do get, certainly true in Systems and Projects and now definitely in Steel business units, but Tubes also I think has good potential in the next couple of years.

Anubhav Gupta: What kind of CAPEX outlay you have budgeted for FY17?

Aditya Rao: For the standalone entity, we will have capital expenditure of about Rs.30 crores, because we want to take some opportunities that are there. For the consolidated entity, it will be substantially higher because of acquisitions that we are ourselves making and I cannot commit a price to you on that number because we are at the term-sheet stage and we have a little bit of negotiations ahead of us. For the whole company in question, I think you can say Rs.60 crores would be the rough capital expenditure.

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

Pawan Kumar: Can you just give us the order book size in Projects and Systems business right now and break it up into Coaches, Wagon and Solar?

Aditya Rao: ICF, our Coach business is Rs.120 crores order book right now, our Wagon business is at about Rs.45 crores order book and the Solar business is at about Rs.80 crores order book.

Pawan Kumar: Last year we grew by around 51%, that was actually stupendous growth. But this year would we be able to do something north of 30% at least?

Aditya Rao: I would hesitate to put a number right now but I can give you a order book for each business division and the fact that we think that they are going to grow these numbers, because ICF is now not the only customer, we have RCF as a customer as well when we started supplies to them last month, I am very confident of strong growth in this quarter and financial definitely for Systems and Projects.

Pawan Kumar: I just wanted to know the utilization of our ICF and RCF Coach factories right now. Is that enough to support the growth?

Aditya Rao: That is a good question. Substantial amount of CAPEX that we have mentioned will go into these businesses. The reason for that is that we are near capacity utilization. The way we are functioning is a three shift business. I think we are at capacity right now in ICF, we will have to expand this; however, we have been working on this and most of our Railways work happens in Chennai at our factory there, so we have now capacities expired at our Hyderabad plant as well and we do have plans to set up a facility in the north also for RCF, near Rae Bareli. So taking all of these into account, I do not think we will struggle to add capacity, but yes, I think the bottleneck here is not an order book, but our output.

Pawan Kumar: What will be the capacity you would be operating at… almost full?

Aditya Rao: Yes, 80-90%.

Pawan Kumar: If I crunch your numbers through, I think Pennar Enviro if I am right, the working capital there would be around Rs.30 crores. Should we be concerned about the working capital on Pennar Enviro side, is my number right?

Aditya Rao: First of all, it is a very good math, I am not entirely sure how you arrived at that or if you declare it but yes, that is very close to the truth; Rs.25 Crores plus a little bit is the working capital we currently have at Pennar Enviro; however, not all of these is utilized, for most of last year the actual working capital includes cash and non-cash was closer to about Rs.10 crores. So Pennar Enviro is a fast growing entity and with an order book of its size we have to meet our customer commitments, we have to scale up revenue. So I would not be very concerned. We will give you the numbers for Pennar Enviro P&L as well once the consolidated numbers are out. You will see that it is not a very capital intensive business. It is a technology company. Our interest cost is less than a crore. I would not be too concerned.

Pawan Kumar: So EBITDA margins would be around 8-9%?

Aditya Rao: Yes, it would be around there and a lot of that has to do with low base effect as well. With scale, we will go to 10-15%, but from a contribution point of view the order book is very healthy.

Moderator: Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: I have three questions: One is the business. This year has been beneficiary of the lower Steel prices over the period of the whole year and that is the reason margins look better or we have gained margins because of the operating leverage?.

Aditya Rao: Combination of both. The way we look at it is we mentioned two numbers – one of course is the EBITDA margin itself. The other number which allows us to remove any influence of raw material prices is spread per ton, we can do this for multiple business, obviously we cannot do it for Pennar Enviro and really speaking we cannot do it for PEBS either. But every one of our businesses we have seen an expansion and spread per ton which is basically my selling price minus my raw material price. So that is how we can with a lot of confidence say that the reason for margin expansion and if you see this year for the consolidated entity we grew at close to 200 basis points and I would say about half of that would be raw material and about half of that would be margin expansion.

Manish Bhandari: So you would lose this once the Steel prices has gone up in last quarter or so, so the whole impact for the whole year we should see some kind of margin contraction from what we have gained over last year, is it true picture to say?

Aditya Rao: We have not yet seen that, because we have two things – what is happening here essentially is the value added products proportion is constantly going up and our commodity business volumes are actually going down. The raw material price increase has a short-term impact in terms of whatever orders we are booking, right now we typically tend to pass on the increase and not the increase with the margin. But even taking that into account, I do not think you should look at margin contraction in any of our businesses over the short and medium-term. I think the way we have structured them focusing on higher margin verticals and all of the strongest order books of the company are in a higher-margin businesses. We are not projecting margin decline in the next quarter or two for any of our businesses.

Manish Bhandari: My second question is regarding the Tubes business where your press release says that we are now close to 218 customers and if you look at the size of the business which is approximately Rs.200 crores. So, the wide spread of customers is a reflection of the pre-qualification which we need to build with each customer or we have spread ourselves too far away and we do not have a major share of any customer business, how one should read this?

Aditya Rao: I think that would be accurate. I would actually describe it a different way. This is a business which comprises two things – ERW and CDW businesses. ERW is you can think of it as quasi commodity while it is not entirely a commodity you cannot buy the exact engineer thing that you want. From a process point of view, CDW is far more complicated and far more value added. So, in CDW we do have what you have said is which is discrete customers who can give us lot of volume, we can scale up, whether that be IFB, whether that be ALF Engineering and others. So that I think will follow that line wherein focus is on the smaller set of customers and a larger individual order size, for example, in CDW, our current volume per month is about 700 tons and we are beating that now, close to 800, but the largest player in the market which would be Tube Investments is about 7,000 tons. So, I am confident that the market itself would be an initiative. Wanted to get a large single customer? That would not be a problem. But this is relatively a newer business where it has been about three years old. So going forward we should be able to target that. ERW will be, as you said, smaller customers, more number of customers and of course individual order size is being small, that is definitely going to continue to be the case.

Manish Bhandari: Regarding the Engineering Services business within PEBS, you have a long lasting desire to make it a sizeable business within the PEBS and within Pennar and your acquisition which you alluded towards that. Finally, do you have some size in your mind which would be created in the Engineering business, Outsourcing business and how big that could be, what all need to be done to create a sale in that business and you have been somewhere 100 headcount at this point of time?

Aditya Rao: I think Engineering Services as a vertical is currently in PEBS in terms of the Structure Engineering Services. But this is something that can be developed in our industries as well, because if our PEBS business are the masters of structural engineering, then Pennar Industries has tremendous capabilities in mechanical engineering and automotive engineering. Our ability to package these and give what we do in-house for product development if we were to offer that to others we think we can create a very good scalable vertical. For PEBS in question, the margin profile is about 70% EBITDA. By focusing on some anchor customers, increasing revenue from them, using those cash flows to build credibility and order book from other customers and all of these will probably be in the US, hence the acquisition for the sales front end. I believe it is extremely scalable. Maybe too premature to put numbers on it right now, but we obviously have an internal model where we see very strong growth. Certainly, the numbers right now also close to 8-10% of EBITDA in this PEBS coming from that business unit. I think what we will head for is an even more substantially larger numbers. Steady state maybe I believe close to 20-25% of PEBS revenue would come from this business vertical and I think something similar can happen at Pennar Industries as well.

Manish Bhandari: Two years back, your stated vision for the revenue targets used to be a billion dollar only the reference for these, it often changed in this whole process. So where are the refinement and the vision for the company has changed or what other thing has gone into the resetting the ambition?

Aditya Rao: I believe that a billion dollar revenue is a number that is attractive, it is convenient to mention and we continue to have that as our vision internally, but I think the way we want to get there is for example, I could buy and sell a million tonnes of Steel and my revenue shoots up. We are focused on not just the revenue but also the cash flows, the EBITDA and the profitability of the company and the liquidity position of the company. We are building an entire plan out of what we would like to see Pennar Industries look like 4-5-years from now. I am very confident that we will at some point of time hit the billion-dollar mark in terms of revenue. But what is far more important to us as stakeholders and also as the management of Pennar Industries is that we build strong Engineering businesses, strong Engineering verticals with very good core capabilities in Automotive Engineering, in Construction, in Environmental Engineering, in Process Design, Process Plant Design and Plant Automation. Those were the capabilities we are chasing. For a very long time, we have been considered a Steel company. Even now in this call a lot of your questions will have to do it how much tonnage, what is the per ton rate. We still think of ourselves in those terms and I think where we are headed as a company, we will not be using that nomenclature. Our vision is to be a very strong engineering company along the lines of an L&T, along the lines of Thermax. I think we are on our way and in a few years time, we will complete the transition to a full-fledged Engineering company.

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

Gaurav Maheshwari: One question on the standalone working side. We see there is a sharp jump on the trade payables. Is it a one-off or what do we read into that?

Aditya Rao: It is a one-off. I think what would have happened on the trade payables side is that because of MIP, there was a sudden spike in prices and we typically go in for a lot of raw material procurement. We would have had to do that in order to ensure that the order books are covered for the business that do report an order book, specifically for Solar, we would have done this. I know we bought a lot of Galvalume, I know we bought a lot of GP and we would have had to do this to cover our order book. So that would have been the spike that you see. It would moderate out as we see. Already price increases have more or less come to a halt now and then our people are now talking of the price decrease because of monsoon. We do not know whether the price decrease will happen but we always buy more and we always have more trade payables only for the cases where we have to cover order book. That is one reason we get into trade payables, so that would be my answer. But I will look into it and get you a more thorough answer.

Gaurav Maheshwari: Because what is raising the concern is that it was Rs.100-odd crores in FY15 and it is almost Rs.200-odd crores and when you say that is mainly due to the inventory buy which you would have done, but that inventory is up by only Rs.30-odd crores, so this looks like a 2x jump on the trade payables side?

Aditya Rao: Inventory does not go up immediately after you incur trade payables. So trade payables include LC payment, including advances that we make. Now, we cannot count that as inventory until it actually comes and hits our factory and there is a GRN that is issued. So what you would have seen is the March 31st number. But I know our inventory is up very substantially because as of right now, the current inventory of the company is close to 24,000 tons with 4,000 tons more coming in, in the next few days, and if you look at the average last year, it is only 18,000. Even if you do not count that 4,000 tons coming in, I am up almost 6,000 tons and 18,000 tons which is almost a 33% increase last year just on the numbers that I have right now, but I think you will see an even more substantial increase because of what is coming in. So, I cannot immediately count it as inventory because it has not come and hit to my factory as yet, but once it does, there is no other reason, the only accounts the trade payables we would have are LCs. But we will give you the breakup of trade payables in that entirety and we can discuss that as well whatever level of detail you would need.

Gaurav Maheshwari: My second question pertains to PEBS working capital. So even by our own standards in the past the kind of debtor days we have had and even if we compare with the industry, it does not seem to be going down, so it was earlier in 2-days in FY15 and it is 113-days in FY16 and our own standards was 67-odd days. So when do we see that getting normalized – do we expect that to happen next two quarters it will be normalized to the 60-70-odd days that we used to have?

Aditya Rao: That is actually a very important question. I know we have had conversations around this. It is very important for us that PEBS gets back to two months. I think it is at three months. For a while it was going a little out of control where on the six months period, we had three and a half months, but it is coming under control. The reason why it is higher on the receivables was some of the orders we had were of a slightly larger lead time. However, these orders were very high profitability. We are now seeing this cash flow coming. The payments have started coming in now and I am very confident that it will continue to reduce. I believe that our target is 60-days inventory 6-months from now, I am confident we will get close to that. If I have 60-

days and based on the PEBS current growth plans this year, we should have something approaching Rs.120 crores at the 6-month period.

Gaurav Maheshwari: So we can see a substantial free cash flows coming out of the working capital in that case?

Aditya Rao: yes, right.

Gaurav Maheshwari: Because I think you would appreciate our concerns because obviously FY15 we could understand as a one-off but it has continued for the entire last financial year, so it has been almost 5-6-odd quarters when you have not seen that coming down. So hopefully we see that in the next two quarters.

Aditya Rao: I agree, I think investors have been patient and it is right for you to put pressure on us to tell us "Please ensure that the cycle gets back to two months." I believe that is a very important thing for the company. But it has come down from 120 it went to 180, it is back to 140 and I think we will see 120. So the size of the task ahead of us is not very high but I fully agree with your concern and belief that the most important thing for PEBS is to ensure that its operating cycle comes back to 2-months and that we see good cash generation.

Gaurav Maheshwari: Do we see the margins coming down in that case or it is not at the cost of the margin, so the margins could be at 15% at least, if not 17% that we saw in Q4 because we saw a phenomenal quarter in terms of margins for PEBS?

Aditya Rao: My personal belief is that the fourth quarter margins while replicable, a lot of this depends on our auditors as well and the way they see valuations, so in fact, when you see margins jump by almost 250 basis points in PEBS for the whole year and also for the quarter, I think we have to look at how our EBITDA gets generated, it is a function of our order book and how fast we output and of course any new EBITDA boosters like Engineering Services. So, all the things are firing on all cylinders. I would say we should be able to do margin retention but we are now going to see that 15% go down to 10% or 11% or something, I do not think we are going to see that happen. I think it is at a very high margin and with MIP going up, with raw material prices going up, even the denominator goes up. So we have to take a look at this but I think I am not seeing the ingredients for a margin decline in PEBS right now.

Gaurav Maheshwari: Alternative way if you can give us something like an EBITDA per ton that you look at on the PEBS business?

Aditya Rao: That is a good number and I think EBITDA per ton would be around Rs.20,000, I will get back to you on exact number.

Moderator:	Thank you. The next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.
Vikram Suryavanshi:	I want more clarity on Pennar Enviro. What was the revenue and order book for this quarter?
Aditya Rao:	The revenue in the quarter from our gross sales point of view was about Rs.51 crores and the order book is more or less the same because what we output it we booked and we are looking at some large order book in the next few weeks but obviously we can only declare it once it has been booked and we have a few, but the order book is quite high right now.
Vikram Suryavanshi:	On the Solar you said order book is around Rs.80 crores. Has there been a decline in order book compared to last quarter?
Aditya Rao:	Usually there is; from Q4 to Q1 we do see a decline because typically for Solar Q1, Q2 tend to be very low and Q3, Q4 tend to be very high. The actual comparison would be our order book now as opposed to the order book last year for Solar and that is substantially higher. Q4 is usually a very large period because most projects have those March 31st deadlines for commissioning. So everyone struggles to push out as much as they can. We do see a moderation of this now with other states policies having different timelines, not March 31st, but typically the best months for Solar historically for us if you look back have been Q3 and Q4. So Q1, Q2 we will have good Solar revenue, we do not have, but it would not be as good as Q4.
Vikram Suryavanshi:	We have one facility in Baroda for the PEBS. So any outlook on that how much that can contribute or development on new facility?
Aditya Rao:	I cannot give a forward-looking nature, but I can tell you that it will be very substantial; I can give you a broad percentage range; over 15% of our revenue this year should come from that plant.
Moderator:	Thank you. The next question is from the line of Govindlal Gilada who is an individual investor. Please go ahead.
Govindlal Gilada:	This current financial year any absolute guidance for top line/bottom line?
Aditya Rao:	We unfortunately do not give guidance for the company but what we can give you is that we are not projecting a decline.

Govindlal Gilada: In the AGM you were talking about something around Rs.100 crores PAT this year. That is achievable?

Aditya Rao: I do not think I would have mentioned Rs.100 crores PAT as the guidance for this financial year but I would like to commit to you that we have had a good financial year with strong bottom line growth, strong margin growth in spite of core commodity prices, which sometimes comprises 70% of our revenue, and which have fallen by 30% for most of the year, we have still grown in revenue, this is if not highest ever revenue, it is close to our highest ever EBITDA, I am very confident that we will do well the next financial year; I will however not be able to give you a number per se in terms of what the performance of the company would be, but I can definitely commit to growth.

Govindlal Gilada: Since last five years, I am attending every AGM. Somehow I am disappointed every time what we talk, we are not able to deliver. So I hope this year things will improve. Overall financial year front also, I am not little happy on return ratios, debtors are moving, receivables, inventories all they are moving, comparatively sales has gone up by just 3% and receivables have gone up almost I think 15%, inventories have gone up by 25%, debt has gone up some Rs.80-90 crores absolute. So overall when quality of earnings will improve? When ratios will improve? When inventories, working capital will come down? When borrowings will come down? When interest will come down? That when we can see?

Aditya Rao: That is a good question. Let us talk about what we see happening in terms of when you mentioned the working capital cycle going up and several things you mentioned which is inventory and accounts receivable are functions of working capital.

Govindlal Gilada: Comparatively, other companies in this industry I am seeing it is almost Rs.1300 crores net sales, almost 50%, almost Rs.650 crores is inventory receivables I think it is little on higher side, that whole thing when we can see?

Aditya Rao: Inventory receivables I am not entirely sure what you mean by that, let me as I said talk about working capital as an overall picture. Now, when you are looking at a company like ours which is trying to bring in growth, we have great growth plans. I agree with you that certainly on the revenue front kind of growth that we have expected really we cannot say that we have seen that number considering what the working capital growth expansion has been. But I think we have substantial investments going on, substantial CAPEX going on and I think once we reach a stage where we are able to turn that cycle where our cash flows coming in greater than the cash flows going out, whether that be true, operating expenses, which is working capital and CAPEX, that is only you are going to see a massive expansion in terms of our liquidity.

That being said, I do not think the expansion that you see has mostly been for these CAPEX projects, so I would remove that separately. If you were to remove that as such, "are there a moderate expansion in working capital cycle" I think we mostly made good cash flows, we are not expanding it in a massive way. Our interest cost this year as opposed to last year is not substantially very different. So we will work to improve these ROCE numbers, EBITDA margin numbers and also the net working capital cycle of the company, bringing it down is definitely a priority and we will work on that.

Govindlal Gilada: That I hope every year now we will see reflecting all that?

Aditya Rao: We hope this year that we will be able to please you in terms of status. This is the company run by the investors for investors. We will work to ensure that your concerns are addressed and they are very good concerns, you are absolutely right in terms of your concerns, we will bring in growth and we will make sure the working capital remains in control, that remains our priority.

Govindlal Gilada: Any dividend we have given last year?

Aditya Rao: We have not given a dividend last year. We will be considering dividend for this year.

Govindlal Gilada: I hope at least some reasonable dividend should have been given around Rs.3.5 EPS.

Aditya Rao: That would be the question for the board to answer. They were not able to take up dividend payment in this quarter, but I think it will be discussed at a special board meeting if necessary.

Govindlal Gilada: Last year also we have not given, before that also you have not given?

Aditya Rao: That is correct.

Govindlal Gilada: Some token dividend as a shareholder we should expect because we are a growing company and we are making good profit also.

Aditya Rao: I believe your concerns are very valid. I will definitely take your comments on the dividend to the board and we will definitely revert with what they decide.

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

Pawan Kumar: Regarding the acquisition we were talking about in PEBS. I understand you are still in negotiations. But can you broadly give us the size of acquisition you are talking about?

Aditya Rao: I do not think I can say, explicitly, it was one of the terms in the term sheet is that it is covered by (NDA) Non-Disclosure Agreement. Once it is done, I can and we are not very far away from this. This is something we are going to complete in a very short period of time.

Pawan Kumar: Can we expect it to be below Rs.50 crores at least?

Aditya Rao: This is definitely below Rs.50 crores.

Pawan Kumar: What is the dividend policy?

Aditya Rao: While we do have a policy as such in terms of dividend, what is lacking is I think our plans to meet these payouts at what period of time. We typically say that we want to do 30% for each year. The time at which we do that, I think we will be taking this up in the next board meeting. That is the reason it has not happened. But as of last year we have decided to impose a dividend policy on ourselves. We will be taking this up in the next board meeting and when the dividends paid out, is it an interim dividend, is it a final dividend, all of those it is all and this applies to who have been with our industries and PEBS, we will ensure we do this.

Pawan Kumar: About the capacity set up coming in our Railways side, when are we expecting that expansion to be commissioned?

Aditya Rao: So there is multiple expansions at multiple locations. We will have the first expansion which is an expansion of another dedicated day in Chennai, that should be complete in the next three months. Hyderabad, we will need to set up some equipment… we have just completed setting up a new fiber lazer and also some roof special purpose pot holding machines. All of that is coming up and it is under commissioning stage, within the next three months we will have a substantially higher capacity at both Chennai and Hyderabad to cater to Railways. The plant in the north will take a little more time. Quite frankly that is something that the board has to approve first and then we can go ahead with that implementation.

Moderator: Thank you. The next question is from the line of Surendra Bachhawat who is an investor. Please go ahead.

Surendra Bachhawat: My question is around one of our customers Nuevosol. Recently in the newspaper we heard that they are expanding three units. I want to know what is the top line of Nuevosol? How we are going to scale up this competition? Third is, is there any expansion in collaboration with them for doing some projects?

Aditya Rao: Nuevosol is our competitor, they are also our customer and they are also in some sense our vendor. I will not be able to comment on their revenues. I am aware of the news article that mention the manufacturing plants. We believe the market is big enough for two players in the MMS business while I certainly believe that they are a good company but I believe that our capabilities are quite strong and we believe that with order book that we have, we have substantial avenues for growth in the MMS business; last year in the entire MMS business of the company we produced sales in excess of Rs.250 crores and I think that we are the largest in India and there will always be competition, there will always be other players and we welcome the chance to work with others, as the Solar industry grows in India we will also look to ensure that we are a strong player and we are one of the top players in this field.

Surendra Bachhawat: My second question is CDW business. This business we started three years ago where we have set up a plant of 100 tons and then we expanded, again 200, then again 400, then again 600, now it is 800. How are we expanding with that?

Aditya Rao: If my understanding is correct, you are saying "Why are we adding CDW capacity increments in small measures – 200 tons, 300 tons over three-four years?" The answer is a little more nuanced. When we first started the Tubes business over three years ago, we had severe technological challenges, we were unable to properly deliver quality that customers would have wanted, we were unable to figure out certain aspects of the CDW process or Surface treatment took time to implement our new annealing capabilities also we are not entirely up to the mark. Over the last two years, what we have spent is we made sure we figure out the technology because it is a thoroughly engineered product and the precisions we speak of are in micron levels. So, we have to ensure that we add capacity after the technical challenges have been solved. About a year ago we have reached that space where we are now very confident in our ability to deliver. I would consider one of our customers lists to be some of the best companies in India who need these products are our customers. So, I think substantial CAPEX is going on now, in fact, if you look at the major CAPEX elements this year, one of it is Railways, one of it is Tubes. With that, we will be able to bring in much more substantial improvement in CDW so that we can get into the thousands of tons per month.

Surendra Bachhawat: We have now come out with technical capabilities. Now, why you do not put 3,000 tons per month plant so that let some marketing department work?

Aditya Rao: That is definitely a model of growth that is possible, but my feeling is that you have to earn the right to have your customers give you orders. What you are suggesting is extremely easy for me to add the capacity, but meeting customer expectations, ensuring scale up happens and for me the most important number is capital efficiency and we have growth opportunities elsewhere in the group as well, Railways for example, Solar for example, what we have set up in terms of Special Grade CR. So in a sense we have told is each business division to take care of its own growth vertical. Every business funds its own growth. In that sense, we decided that setting up 3,000 tons plant right now, that may not be the best way you want to go about this. I think the markets are there and they are strong and we are quite confident that Tubes will grow well. CDW has not quite grown the way we wanted to, but we will be taking the steps where we want to substantially increase it, not to the extent of 3,000 tons but certainly much larger numbers than what we are doing right now is our goal and we are also looking at other avenues like say in the Steel Tubes and others. Once we figure out the technology properly which we did a year ago, I think setting up aside capital expenditure, making sure we execute projects is the priority and we are definitely focused on that, but it will be slightly a different way than what you mentioned.

Surendra Bachhawat: Is there any chance of setting a plant at Tarapur for Tubes business?

Aditya Rao: I do not think so right now because Tarapur plant near Mumbai is actually one of our smaller plants; it is only about 5-acres, Tubes requires tremendous amount of space, it takes tremendous amount of large sheds. So the location for this plant would be elsewhere. But that being said, Gujarat is an opportunity we think. We are also making these investments in land and in other assets in a measured way, far away from cities, not at a very high CAPEX but certainly our ability to scale up our Tube capabilities, capacities in other cities is definite. But I think we are targeting Chennai before we target Mumbai.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: If I breakup your turnover in a commodity type versus the Special Steel and Engineered Products, it seems you made quite a bit of progress on value added in the Engineering types of business over the years. So my question is next three years, how do you see the further progress on that if I see the expansion on CDW versus CRW you have done there, Steel business is going down, so on standalone basis, I think 37% is representation, still is now the Steel business, which is the commodity types plus if I add maybe ERW part of the Steel and stuff like that and we have made quite a bit of progress in adding turnover in a subsidiary which are also Special and value-added kind of stuff?

Aditya Rao: If you were to go back about 5-years ago, then 80% of our business was commodity, now the situation is reversed where the vast minority of our business is pure commodity. The way we do our planning, every new business, every division we invest into, whether that is capital expenditure or operating expenditure has to give us an EBITDA which is close to about 15%. The first metric we had was 10% EBITDA. We have expanded that over time over the last few years to include 15%. So, all other CAPEX we are putting in. CDW higher than 15% operating margin, Railways, certainly higher than 15% operating margin, Solar also larger. As we continue to make these investments, we are confident that the majority of these will be very successful implementations. As we do this, the share of value added margin products will reach a point where it is well above 90%. It will never become 100% because we do not believe and in some sense we also do not want the core commodity business to die. I think it gives us some core strengths in terms of downstream product advantages and also purely from the point of view that it was the business of the company we were in and there are a lot of people who have been with us for long time who want to continue to be with us. So we will persist with that, but as a percentage of the turnover of the company it will become smaller and smaller and smaller. As a percentage of the capital employed, more relevantly, it will also become smaller and smaller. So, all of our money will grow into growth. Businesses will grow into businesses which give us a high margin. As these businesses come on line and increased revenue, we should be able to see a such situation where revenue scaling up hopefully at a double digit percentage per year and their EBITDA margin grows quicker, because what is being added is at a higher margin than what is existing. So that is the growth plan that we have. We are quite confident that given two-three years from now we will be able to see ourselves as a strong engineering company with a high EBITDA and most importantly good cash flow generation.

Amish Kanani: What is the current say commodity versus non-commodity in your sense approximately and in three years do you think 90% is achievable?

Aditya Rao: I definitely think 90% is achievable. As of right now, I would think 70-75% of our business is value added and 30% roughly would be about commodity; if you look at consolidated, PEBS, Pennar Enviro, Railways, Solar, Industrial Components and new CDW are all non-commodity are all high engineered products, the commodity consists of our Cold Roll Steel Strips and ERW capabilities which is about say Rs.30 crores a month combined. So, I think that is an accurate number.

Amish Kanani: Company within three years we should aspire that the EBITDA margin should be in excess of 15%, right?

Aditya Rao: Exactly, that is our plan.

Amish Kanani: About acquisition, is it main PEBS or is some acquisition that you bring into Pennar Industries as well?

Aditya Rao: No, we do not have an acquisition in mind. We are looking at building a similar business model on a home grown point of view. So we are structuring ourselves; we have a lot of engineers, we have literally armies of structural engineers, of automotive engineers, of mechanical engineers, we have very strong capabilities in instrumentation, environment design. So we are caging this together in a way so that we can project these outside. So do Product Development for others, not just for ourselves, for others as well, Engineering Services for others as well. It is about using the assets of the company to project ourselves as a solutions company, not just a manufacturing company. That is the transition we are making right now. We have some orders as well but we will talk to you much more about this in the next few quarters.

Amish Kanani: One more observation is about the inventory buildup that we are talking about in our PEBS level also we saw the incremental inventory buildup and being a company coming from Steel background I would say it is fair to take a call on Steel and the way the MIP was discussed. So the point is where the Steel prices on where. You also mentioned that it has impacted some parts of our Steel business. But if we consider value added business of ours it should not impact us much more incrementally and the point is what kind of inventory buildup call that you have taken and should we expect the benefit of the upturn in Steel price in that context at least from the inventory call that we have taken?

Aditya Rao: We would not see a benefit or a decline for most of this inventory purchases. The reason for that is we buy only on the basis of orders, so, let us take Pennar Industries, for covering Solar business, whatever orders we have, we have to buy raw material because if the raw material price goes up and we are unable to procure it at that price, it presents a threat to the margins. The key challenge is the inventory carrying cost you typically take it for one month, two months, but then you have to take it for three-four-five months. That is a call quite frankly I would say I do not have a choice. I had to do that because I cannot take risks on raw material price, I cannot take exposure in raw material price. So temporarily when you have these massive increases, if it increase by Rs.1,000/ton, we would not panic, Rs.1,000/ton represents about 2.5% rise in raw material, we still have the ability to negotiate with our vendors, we know them very well, JSW is a company that is very close to our heart, we think we have a good relationship with them. So we have that ability to have the dialogue with them. But what happened over the last three months is reasonably unprecedented over the last at least three-four years I would say, because of imposition of MIP and the safeguard duty as it is called. The price shot up by close to Rs.5,000/ton. So you went from base, the cheapest thing we buy from 29,000 went over a period of a month, month-and-a-half to 34,000-35,000 and impact which is massive, it can eat up my EBITDA if I do not react, so I have to react. Consequence is that for the term these increases come in. It is just for one operating cycle that it matters. I am not doing that every month, I am not doing it right now. If you look at my inventory levels, it will decline over the next two-three-four-five months, as we enter a period where monsoon do, where the offtake is not that high, so typically the market effects plus the MIP effect going away. So, we are quite okay. Frankly to be perfectly honest, we do not really have a choice we have to react this way when the increases are of that nature. But it affected revenue wise, it only affected the commodity business because that is in a sense where we compete with the large steel players, it is a very small business, it is 5-6% EBITDA. Wrong thing to say but I am not all that disappointed we did not get that revenue because it will increase margins in the rest of the company for the entire…

Amish Kanani: The point is the higher inventory reflection of a higher order book or a reflection of higher execution cycle that we have for some of our businesses?

Aditya Rao: The higher inventory is a function of us going long on our procurement, buying for not one month, two months, but a substantially larger period for that, it is not an average of four months, it is an average of three to three-and-a-half months is what we have procured and we had to do that. What happens to that procurement cycle is next month I buy less, the month after that I would buy even lesser assuming Steel prices stay stable, if they increase again by Rs.10,000, then I will have no choice but to go to my bank, get more non-cash limits and buy…

Amish Kanani: I understood sir. The point was is that the inventory because of the higher order book that you are sitting or is it because of the higher execution cycle of the order book that we have?

Aditya Rao: I would say it is mostly because of higher order book, because if you look at the divisions which report an order book, Railways, my order book is higher by almost 50% compared to last year, Solar, my order book is higher, I do not have the exact percentage, PEBS is higher by close to 30-35% from Rs.300-odd crores we went to Rs.424 crores in terms of order book size. So it is a function of larger order book. The operating cycle is reasonably immune to these kinds of things, for one specific order in PEBS we have had that but as to the other callers we have mentioned as well, we will take a very strong look at what any operating cycle increases. We know this is a temporary increase, our goal would be to bring it back as soon as possible back to the two to three month operating cycle. We will not take an order for six-seven months operating cycle even if it is very good margins.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Aditya Rao for his closing comments.

Aditya Rao: Thanks to all of you, thank you for your questions and we believe that we try to adequately answer a lot of them, unfortunately, the one hour timeframe does not give us the ability to get into all of these issues, what would like is if any of you have follow up questions, we would welcome a dialogue with you and some of the questions which we have taken we obviously will take to heart and we will make sure that we are giving you a good idea of things going on, we are quite confident of bringing in further growth this financial year and I thank all of you for all of your support. Thank you so much.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Dolat Capital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)