"Pennar Industries Limited
FY2019 Earnings Conference Call"

May 28, 2019

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Moderator: Good morning ladies and gentlemen, welcome to the Pennar Industries Limited FY2019 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mehul Mehta from Dickenson. Thank you and over to Sir!

Mehul Mehta: Thank you Lizaan. Welcome everyone to Pennar's FY2019 earnings call. Today we have with us Mr. Aditya Rao, Mr. P V Rao, Mr. Krishna Prasad, and Mr. Shrikant from Pennar Industries Limited. Now I hand over the call to Mr. Aditya Rao.

Aditya Rao: Good morning and welcome to all the stakeholders of Pennar Industries. This is our first call as a merged entity, having merged Pennar Engineered Building Systems and Pennar Enviro as well, so we welcome all the stakeholders of Pennar Engineered Building Systems as well. We have recorded a good year where we have recorded growth on all fronts, revenue, EBITDA and profitability after taking into accounts certain extraordinary items, which we had last year due to the sale of Pennar Renewables, our solar subsidiary. After accounting for those items across all metrics, we have grown and improved including several balance sheet numbers as well, so we are well conditioned to bring in further growth in this financial year. I will now pass on to Mr. P V Rao, our Joint Managing Director for his comments on the performance of the company.

P V Rao: Thank you Aditya. I too welcome all of you for this investor's conference. As Aditya said this is the first investors conference after the merger has happened. Now I would like to bring to your notice that the Pennar Industries reports 24.3% increase in consolidated net revenue and 13.7% increase in consolidated PAT, so we have consolidated financial like this. Our net revenue is about Rs.2,160 Crore and an EBITDA of Rs.200 Crore an EBITDA margin of 9.3% and a PAT of Rs.66.7 Crore, so during Q4 I bring some highlights to your notice.

We continue to receive steady orders across business verticals such as building products, tubes, solar, railways, industrial components and pre-engineered buildings. The order book position for pre-engineered building segment is Rs.472 Crore as on March 31, 2019. The order book position for water treatment and chemicals as on March 31, 2019 is Rs.85 Crore. In our verticals, railways reported 67% revenue growth during the year whereas the tube division and industrial component division grew by 32.3% and 30.9% respectively. Steel products division grew by 12.5% in the year. Pre-engineered buildings segment grew by 18.5% during the year. I request our investors to start the question and answer session and we would like to continue the session with question and answers here.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Vaibhav Gogate from Ashmore Group. Please go ahead.

Vaibhav Gogate: Thanks for the opportunity. Could you give me the capex outlook for the coming years?

Aditya Rao: The standalone entity, which now comprises Pennar Industries, Pennar Engineered Building Systems and Pennar Enviro as a merged entity that is standalone. Consolidated now covers our US subsidiary Pennar Global and our defense subsidiary in India, which is majority owned by Pennar Industries, so there is no capex that is foreseen for the consolidated entity minus the standalone and in the standalone entity right now last year we had about Rs.149 Crore in capex and this year we expect that it will be closer to Rs.200 Crore.

Vaibhav Gogate: What would this Rs.200 Crore be spent on?

Aditya Rao: We have a list of projects. It is quite comprehensive. Each one of our business units within the company have expected growth rate of 30% overall, so that is what they have to affect. Now in accordance with that, it is still diversified. If you would want a more thorough breakup, we will attempt to provide that to you, but it is inclusive of investments we are making in railways to expand our capabilities to set up a new plant. It is inclusive of our new CDW tubes expansion and also stainless-steel tubes expansion. Hydraulics capacity is undergoing an increase at our Chennai plant, addition of new beam lines in PEBS is also included in that, structural steel our manufacturing capability also will increase, so we can give you a broad based breakup, but effectively the vast majority of this capex is I would say in excess of 95% and the existing business lines increasing capacity.

Vaibhav Gogate: What was the cash flow from operations that were generated this year?

Aditya Rao: The cash flow from operations, which was generated this year, would be roughly about Rs.175 Crore, which is what we would put as basically PBDT.

Vaibhav Gogate: Is this after working capital right?

Aditya Rao: Yes Rs.149 Crore is the number.

Vaibhav Gogate: After working capital and before taxes?

Aditya Rao: Yes Rs.149 Crore before working capital change and before taxes yes.

Vaibhav Gogate: What would be the number post working capital and taxes?

P V Rao: Approximately it will be like Rs.79 Crore.

Aditya Rao: Rs.79 Crore is post working capital changes but do bear in mind that a lot of this working capital change is LCs, which does not necessarily create an immediate current asset. These are necessary it does not matter how much cash.

Vaibhav Gogate: I just wanted to have a brief outlook on your?

Moderator: Sorry to interrupt.

Aditya Rao: The last question was regarding our operating cash flow, so the clarification we are putting is Rs.79 Crore is the positive cash flow plus working capital changes, but please do bear in mind that there is a fair amount of LCs that are used, which in my opinion it is your decision how to take it, but since it does not immediately create a current asset and it is a necessary part of our business. We do not take them as capital. If you have to remove that then the operating cash flow is higher.

Vaibhav Gogate: Could you give a breakup of revenues and EBITDA margins in various segments that you use to report traditionally like be Pennar Enviro and PEBS Pennar?

Aditya Rao: That would be difficult to do and as we have mentioned before PEBS numbers are available because we had to have one last board meeting for PEBS post the merger completion, so you have those numbers, but we will not be giving a precise breakup of PIL prior standalone business and there would be eight revenue verticals now completely and we would not want to break those up and give you EBITDA for each cash flow for each beam. Obviously, we track them internally, but right now we are not going to be giving those.

Vaibhav Gogate: Do you envisage spending around Rs.200 Crore for the coming few years or this is a one-off capex?

Aditya Rao: I think our capex is determined more by a growth strategy and we have a multiyear strategy. At this point, I would not commit to a Rs.200 Crore figure every year going forward, but some of these are one time increases, so it may not be, but there will be some amount of steady state capex, which would probably be between Rs.100 Crore plus it probably will not be, but we deserve the right to change this number as our growth strategy gets implemented, but right now that is what we would guide you.

Vaibhav Gogate: Thank you and my last question is if you could just give us a colour on the outlook of the water business that is Pennar Enviro and the PEBS business?

Aditya Rao: I will answer the water business. I would request Mr. P V Rao to brief you on the PEBS part. On the water business or the environment business as we call it, it is doing quite well, so our order books are stronger than they have ever been, they are now crossing Rs.90 Crore in orders and the margins are quite strong. We expect very high growth from that business going forward. From the order books that we have received are from several good process industries and we expect that sector to continue to raise a lot of demand for us for water treatment and environment treatment solutions.

P V Rao: PEBS reported gross revenue of Rs.701 Crore; order book is roughly about Rs.518 Crore, which is the highest since inception of PEBS I would say. We expect a good growth this year also. I cannot give the numbers, but we definitely expect a good growth because we already have very good and excellent backlog and we extended the capacity also as told by Aditya. We extended two beam lines, one at Sadasivpet and one at Velchal and having a very good healthy backlog we definitely expect good figures in this year.

Vaibhav Gogate: Thank you.

Moderator: Thank you. The next question is from the line of Varun Ghia from Equitree Capital Advisors Limited. Please go ahead.

Varun Ghia: Sir could you give us the total order book in the standalone business?

Aditya Rao: The total order book is about Rs.1,340 Crore. It is including the number Mr. P V Rao just spoke about Rs.580 Crore.

Varun Ghia: The timeline would be?

Aditya Rao: The vast majority of this would be executed in the next six months.

Varun Ghia: Secondly your margins have been under pressure this year, you have guided for 11%, so what do you guide going forward, like how do you see the steel prices?

Aditya Rao: Steel prices are volatile, and they tend to have an impact on our margins obviously but going forward I think we can commit margin sustenance and growth over time. I think quarterly ups and downs a little bit will be there whenever steel price is more on a little bit, but at this point we do not see anything that is going to substantially cut our margins in the near future and all the new revenue we add is usually at high ROCE usually at very high margins, but that makes the stated goal for us is operating profit growth and gross maintenance not necessarily EBITDA margins, but in practice I think we can safely say that gradual margin creep up will happen.

Varun Ghia: This capital work in progress of Rs.120 Crore that is pertaining to what capex?

Aditya Rao: We have built expansion in the present businesses and the present business includes the beam line facility, which is going to come up at Velchal. We also have tubes, which we are expanding and CDW and railways as well.

Varun Ghia: Current capacity of CDW is how much?

P V Rao: All put together it will be around some Rs.70 Crore to Rs.80 Crore in all these five business five verticals, this will be the total, all these six segments.

Varun Ghia: The current capacity of the steel business CDW and ERW?

P V Rao: CDW and ERW will be around Rs.6 Crore to Rs.7 Crore.

Varun Ghia: Thank you.

Moderator: Thank you. The next question is from the line of Subhankar Ojha from SKS Capital. Please go ahead.

Subhankar Ojha: Thanks for the opportunity Sir. Just wanted a clarification on this merger. The recorded is June 7, 2018 that has come to the exchange today what is the tentative delisting and relisting of the new entity?

Aditya Rao: Frankly there is no new entity per se. They get merged into Pennar Industries, so Pennar Industries will continue to trade. There will no stoppage of Pennar Industries trading. The PEBS the other listed entity on the stocks trading on June 7, 2018. The current PEBS shareholders would be allotted and the new shares of the RPIL will be listed in a month. Then you will start trading.

Subhankar Ojha: But Pennar will continue to trade?

Aditya Rao: That is correct.

Subhankar Ojha: Got your point. Thank you Sir.

Moderator: Thank you. The next question is from the line of Venkat Subramanian from Organic Capital. Please go ahead.

Venkat Subramanian: Thanks for taking my question. I just had a couple of questions. While Q4 was very interesting for PBS, there has been some setback for Pennar

Industries can you elaborate the reasons for Pennar Industries muted performance in the last quarter?

Aditya Rao: There has been no setback. Could you elaborate what kind of?

Venkat Subramanian: Your margin drop and profitability drop has been fairly steep?

Aditya Rao: Last year in Q4 we sold our renewables subsidiary that committed a capital gain of about Rs.20 Crore. In addition to that with some customers Nuclear Power Corporation and others we have several onetime items, which resulted in revenue and collections being recorded in that month for a two to three-year period, so that contributed about Rs.7 Crore and in addition renewables EBITDA stopped being recorded so that is the reason why you see the dip, but if you were to do an apple-to-apple comparison business last year versus business of this year then we have double digit growth in revenue, EBITDA and profitability.

Venkat Subramanian: Specifically on EBITDA margin Aditya there has been a fairly significant drop if you go to page 10 of your presentation, your gross margin drop is just about 1.5%, and your EBITDA drop is fairly significant?

Aditya Rao: Let me get back to you on those numbers, but it is not indicative of anything substantially having dropped in any of our business units.

Venkat Subramanian: That is the broad guidance we wanted. Fair enough.

Aditya Rao: Broad guidance, but exactly during the merger process also there was a fair amount of provisioning, so that could have contributed to it, but allow me to get back to you on this.

Venkat Subramanian: Sure. Second question is on your focus on ROCE while it is actually beginning to show up, when do you think it actually will go towards that 18% to 19% kind of mark that you were targeting?

Aditya Rao: Well if you look at our EBITDA right now for the entity, which was Rs.202 Crore and if you divide that by the capital employed, which is around Rs.800 Crore it is already above 20% if you were to define in that way, but if you remove depreciation with some people do we do not then it is below that, but over time it absolutely will get up to that it just creep up, so within a quarter or two whether you take depreciation out or not you should touch that number.

Venkat Subramanian: Wonderful Aditya and the last is on use of cash that is there in the books you kind of guided over the previous two quarters that you would look at a corporate action fairly soon and that will happen closer to the time merger happens do you have a timeframe in mind?

Aditya Rao: Good question and so unfortunately statutorily I am still prevented from saying anything until the new PEBS shareholder shares get listed because any declaration of a corporate action prior to that will be recorded and all of those issues would not allow us to take them into account so we can only do a corporate action after the new share, which is a month from now. The board of course is constantly discussing various options, which are available to us, but at this point I am statutorily prevented from saying anything about this. I can however say that we do have the cash flow to enact a range of corporate actions. It is up to the board to take a decision in a period of time regarding this. After one month they can take a decision on this on dividends and any other corporate action.

Venkat Subramanian: Just a broad commitment of thinking in that direction really helps. Fair enough. Thanks a lot and all the best.

Aditya Rao: I would love to, but at this point I am forbidden from saying anything.

Venkat Subramanian: Not a problem. Thanks a lot and all the best.

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

Ashwini Agarwal: Thank you for taking my question. What is the progress on the retail business and if you could help me understand where have you scaled it up to, where do you want to go and will that have any impact on your EBITDA margins going ahead and this is in context to your guidance or aspiration to move the EBITDA margin up?

Aditya Rao: Thank you for your question, so specific to the retail business the numbers are these. We have about Rs.55 Crore of revenue last year. We were expecting closer to Rs.100 Crore, but we want ROCE to be above 35% on that, so that Rs.55 Crore is at 35% above ROCE and we expect this year to reach Rs.100 Crore, so it is not going to substantially figure in. We expect less than 3% of our revenue in this fiscal year. That being said, I think it presents many opportunities. I think high ROCE is something that is very, very important for us. I would not say that EBITDA margin should be a consequence of what we do in order to target whereas ROCE and operating profit are targets we should absolutely ensure that those stay intact, so keeping that in mind I think our retail business it will continue to be less. Our hopes are higher that we could scale it up to 100s and 100s and 100s of Crore, but as of right now we are only targeting about Rs.100 Crore this year in that vertical. In fact EBITDA would be very muted I would say because our EBITDA this year is about Rs.200 Crore plus and that is after an extremely tough assessment by our auditor because there were double digit crores worth of provisioning, which they felt were necessary to make, and we have gone ahead and made because we do have to make sure that the merged entity starts with complete alignment with account because both companies would have used different accounting factors and we have to use one now, so even taking it into account I think our EBITDA of this year's growth would be we believe double digit again, so the contribution for revenue is less than 3% for EBITDA obviously less than that so the margin impact will be minimal not even 10 or 20 basis points.

Ashwini Agarwal: Very comprehensive thank you. Any update on the US business how is that shaping up?

Aditya Rao: It has done well. Pennar Global consolidates into the entity and they have done about $12 million in revenue this year and that is from zero two years ago and they continue to have aggressive growth plans as well. The US is a magnificent market for many of our product verticals and we continue to believe that Eric Brown, our CEO there, has done a marvelous job building up a good team, building up strong capabilities and customer relationships. We have a big expectation that Pennar Global will continue to scale.

Ashwini Agarwal: Is that all traded products or everything is made by Pennar in India or some value addition has been done by Pennar in India?

Aditya Rao: It is a combination of traded products**,** engineering services and there is some value addition that we seen in US as well, but at this point it is minimal should that change there are opportunities for us to add some manufacturing assets over there, in the business lines we are already present in, I know that comes with this risks, so we are evaluating it. As of this point what you said, which is mostly trading revenue plus engineering services.

Ashwini Agarwal: So I am trying to understand that if you are hoping for let us say EBITDA margins going from 10% let us say after you adjust for these provisions that the auditors asked you to take in the last financial year to may be 11%, what are going to be the driver, so one driver is going to be obviously the Enviro business, which will obviously hopefully do better. The second is purely if we look at the trajectory of the PEBS business, the traction seen in the last couple of quarters, any indication that should give us a little bit of pickup in margins. Is there anything else that drives?

Aditya Rao: A lot of our business have a lot of operating leverage, so really what our operating profit contribution so to speak, whatever that is drops down to EBITDA, so any revenue we add in the average for the merged entity and it was also true before is any additional revenue that we add is added at an operating profit, we remove working capital interest also, but if we have to add that we are at 15% to 17% plus all of us, plus all companies, so any additional revenue added whatever drops down to EBITDA is at above 15% that should not decide and in practice also there is EBITDA margin increase if you look at the last two, three years you will see an increase and it is definitely true of PEBS as well. I think they are very aggressive, I think Mr P. V. Rao and team believe that PEBS this year will grow at a very high double digit rate and obviously that will also grow, all the differential revenue has added will be at above 15% operating profit, which all drops down to EBITDA, frankly which a lot of it drops down to PBDT, if you remove 2.5%, 2.8% interest. There is no long-term debt for PEBS, so yes in conclusion, yes, I think a strong case can be made for gradual EBITDA improvement, our growth will curb. Revenue increase at an operating profit of higher than 15% should take care of it.

Ashwini Agarwal: Last question from my side, last year we saw an employee benefit expenses going up by about 25% compared to revenue growth of 21%, marginal pickup and I know you kind of added a laptop to your senior team should we expect employee expenses, percentage of revenue to start coming off from this year?

Aditya Rao: Well the last year was 25% and it is a very high number for fixed cost increase or employee cost increase, which is the major component of fixed cost. What we can commit to is our overall fixed cost growing at 70, our internal targets are tougher, but we will commit to 17% increase in this financial year as opposed to 25% last financial year. Out of this 25% last year only 14% was increments plus increase in fixed cost. The 11% or 12% actually are new employee, new businesses, which we are incubating. We are not allowed to capitalise any of these expenses. Our auditor does not allow us even, when there is IP created that is the interpretation and I have to align myself to it, so it is a lot of these are one time cost for setup, a lot of these are new joinees who are coming in and creating the new business verticals. The several of them if we will talk about over the next few quarters, but we are pretty excited about the new revenue verticals we are starting in the company, so all of that comes at a cost and we cannot capitalise any of that, so that is why if you are 25%, 27% be that as it may have including all of those cost with zero capitalisation of expenses we are committing 17% increase in fixed cost from now on and we have that other system. It is an output out of three of a processes we are running in the company for what moves fixed cost, increments plus new joinees minus cost control measure, so that total is 17% we will commit to that.

Ashwini Agarwal: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Janaki Raman from Franklin Templeton. Please go ahead.

Janaki Raman: Could you throw some light on this provisioning that you mentioned that your auditors forced you to take as a part of this measure, how large was this?

P.V. Rao: Only because revaluation from WIP to RM we add in certain overheads, which were allocated last year, could not be allocated now, even if they are moving from one process to another processes, so as a step forward the inventory valuations, overheads were impacted. Secondly it was on the actual valuation, which has resulted in fact and also there were long term outstanding between PEBS it was different and PIL it was different, so expected credit loss between both the entities have been aligned and have been taken into one, so those are the major changes, which has impacted to a certain extent in terms of provisions.

Aditya Rao: Materiality of it we will not commence Sir, let me check back and come back to you if I can comment on the materiality of it.

Janakiraman: So that is fine, a more simpler question Aditya, so this building solutions vertical, so once a fall in margins I presume part of it had to do with what you just explained and you said that this fiscal 2020 you are expecting good growth, would one see a recovery in margins in the building solutions vertical this year?

Aditya Rao: By building solutions do you mean PEBS Sir?

Janakiraman: Correct.

Aditya Rao: Yes, I think we can commit even to over 100 basis points increases, 100% we can commit, improvement in EBITDA margin.

P. V. Rao: With the expansion in order book that we have we can definitely achieve the increase in the contribution.

Aditya Rao: Frankly a lot is already coming you see in Q1, Q1 you should see, you already are seeing a double-digit growth in our PEBS business. As you saw in Q3 and Q4 also if I am not wrong, and that will continue definitely.

Janaki Raman: The standalone business or the engineering business, which saw mid 20s growth in fiscal 2019, what kind of growth you are expecting this year?

Aditya Rao: What I will do Sir is I will commit for the merged entity, which makes more sense to talk about that now, I will commit double digit growth in revenue EBITDA and net profit in this financial year, I know double digit is made, but I think at this point we will come back to you.

Janaki Raman: Fair enough. You also mentioned that this Pennar global had $12 million revenue and this is a mix of trade of products and services, so how much will be the services component of this $12 million?

Aditya Rao: Services is about one third, Rs 4 million or Rs 4.5 million, I think.

Janaki Raman: Okay, so this is the engineering services that you export from India?

Aditya Rao: That is correct.

Janaki Raman: I guess this should be a reasonably profitable business?

Aditya Rao: It is substantially profit.

Janaki Raman: Right, so this year also I saw quite a lot of volatility in steel prices especially in Q3 and Q4 and for your business you obviously carry fair amount of steel inventory, so did that play an adverse role in your profitability this year?

Aditya Rao: Not necessarily Sir, I think steel price volatility does obviously affect our margins, I think it is the fundamental risk in our business, but we found systems to control that risk. However, we cannot completely account for it, but we do not anticipate that it would substantially impact. For example even if you look at our inventory from number of days we have reduced our inventory value from 147 to 122, so number of days would have decreased by at least 89 to 75 and also we have now entered quarterly pricing for our procurement, for the vast majority of our steel, so the exposure has decreased to a great extent. The potential margin we can take because of raw material price volatility has decreased and because of quarterly pricing and lower inventory is being maintained and I think we should not see too many shocks.

Janaki Raman: Better, and to one of the earlier questions you mentioned that even as the board where to discuss about the buyback, so you will be able to do that only after the statutory merger is completed?

Aditya Rao: Yes, at this point I cannot even say anything about the board discussing or has taken a decision on it until PEBS share get listed, also until stakeholders shares get listed.

Janakiraman: That is what in end of June?

Aditya Rao: That is July, Sir.

Janaki Raman: PEBS shares getting listed?

Aditya Rao: July 7, 2019 is what we expected it will be around. I do want to issue a correction on my comment little earlier today, PIL will continue to trade provided SEBI gives us approval. PIL will continue to trade that I was okay and PEBS will list on July 7, 2019 provided SEBI approval, so provided SEBI approval we expect July 7, 2019 to be the date when PEBS share get listed and start trading.

Janaki Raman: All the best Aditya. That is all from my side.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vridhi Capital. Please go ahead.

Rohit Balakrishnan: Good morning. So, a couple of clarifications, you mentioned that the order book for the entity is Rs 1,380 Crore, right?

Aditya Rao: Order book is Rs 1,320 Crore.

Rohit Balakrishnan: And of the PEBS is how much Rs 500 crore?

Aditya Rao: It is roughly around Rs 500 crore.

Rohit Balakrishnan: So, on this I think this question was asked earlier as well, if look back at the last year's Q4 numbers both standalone and consolidated and compare that with this year's consolidated and standalone numbers, given that PEBS has run quite well, so what is the reason you mentioned that you do not see any reason, but if you look at the number there has been a drop in the margin, so if you can help me with that, actually I could not understand that, so if you can just help me with that?

Aditya Rao: So, what happened last year, are you talking about the one-time events that happened or if you account for that?

Rohit Balakrishnan: I am accounting for the one-time, which was there in the exceptional items, so if you exclude that as well, the EBITDA last year was around 16.7% and this year it is about 10%.

Aditya Rao: Our EBITDA margins were at 16%, so typically our EBITDA margins have been 13%.

Rohit Balakrishnan: Right, I understand that.

Aditya Rao: Let me perhaps try to explain this a little, so typically standalone EBITDA margins are in the 8%, 9%, 10% range with a positive bias towards increase over time, which you can see over the last two to three years if you look at quarter-on-quarter there is a ramp up and you expect we have been seeing that in PEBS as well, so the overall entity also will go forward that way. In Q4 last year to this year the extraordinary items once removed there is growth in EBITDA value, EBITDA margin there has been about 50 basis points fall, that is due to variety of factors in terms of the new accounting standards being applied it resulted in some value been not agreeable to our auditors, but all in all not anything, which in the long-term changes anything, but you can say that it is, I would not read too much into 50 basis point EBITDA margin drop in Q4, I can definitely assure you that in all of our businesses we are not projecting EBITDA margin drop in any of them and we monitor, we run P&Ls for all of them, we run 8 P&Ls, so I would not guide to an EBITDA margin fall in any of them right now for the next few quarters, so as to what happen in Q4 I think you can see the EBITDA margin decline would have been closer to, once you account for the extraordinary items would have been about 50 basis points or something, may be a little less also. So let me get back to you on this, but there was not more than 40 to 50 basis point change and I would not read too much into that.

Rohit Balakrishnan: Understood and we are seeing on the auto side there has been expected slowdown happening, so would you still sort of hold to your guidance of 30% that you are seeing given that capex of Rs 200 Crore?

Aditya Rao: 30% is our internal measure, even the capex of Rs 200 Crore is a number that has to be approved, each and every capex investment goes to the board is reviewed by our independent directors in the capex committee, so these are broad level guidances of what we expect, what I can do is every quarter give you an update on each of this and give an idea of what it is, but growth rate I am promising double digit, I am promising let us say 15% above, but obviously our internal targets will be much higher and the auto sector has been underperforming we have seen that, that we will grew in respect of that.

Rohit Balakrishnan: So, I just wanted to get a sense on the railway side, any update or any commentary that you want to give on that segment?

Aditya Rao: It continues to do well. Last year was good growth, again, strong double-digit growth. This year also we expect double-digit growth in that vertical not as high as last year perhaps, but still I think we are making a lot of investments into bogie frames, we are doing a lot of investments into railway interior designs as well, coach components and also a regular business of under frame systems, sidewall systems, roof systems that continues to also do well perform, so at this point we are on the basis our order book in railways on the basis of our current revenue run rate what we see in Q1, I think the revenue that is there is quite strong, we are working on new growth options for railways now and our customers are mostly ICF, MCF, BML and we can mine them for more revenue, so I think it has positioned well.

Rohit Balakrishnan: Understood, just two to three questions, on the PEBS, this quarter congratulations the numbers were quite good, so does it seem that there is visible turnaround on that side, and if yes can you just point out what is the reason for the turnaround?

Aditya Rao: Actually the orders were very good in the last quarter and even the third quarter also, so the market has improved a lot in terms of warehousing projects coming up all over India after the introduction of GST and earlier the percentage of manufacturing industrial projects were more, now the warehousing projects have been more compared to industrial projects and all over India there is a good market sentiment in the last two quarters in terms of warehousing, industrial buildings are also coming up significantly, so we already have a backlog of around Rs 500 Crore and we expect that to grow significantly in the time to come.

Rohit Balakrishnan: And any commentary on the solar side of the business has it also done well or facing challenges in the last couple of quarters?

Aditya Rao: Surat did quite badly out of all the revenue verticals, it is not business unit. Out of all the revenue verticals we have, I think solar is the only one that did not grow, and it seems to be improving, our order books are stronger and I think as far as we do solar through PEBS MMS and we do component. PEBS MMS order book was 200% order last year, so this year we should see extremely high growth for PEBS MMS. I think this year we can promise growth in solar, I know the difference from what we have seen in the last few quarters, but on the basis of what we see right now there seem to be substantial recovery underway, so there will be some growth this year.

Rohit Balakrishnan: On the finance cost if you can just reiterate your guidance as a percentage of the topline?

Aditya Rao: Interest cost for the entity was Rs 75 Crore standalone, consolidated Rs 75.5 Crore other entities do not have any debt, so Rs 75 Crore is the total interest cost, which we look at finance cost is the bench market or we lock it at a certain percentage of gross sales, our controls are at 3.3% than what we have achieved 3.02%, so that will continue, so that is the way, we tend to not worry too much about interest because the debt equity is quite low anyway.

Rohit Balakrishnan: No, I did just want to get to that 3%?

Aditya Rao: Yes, that is sustained and that will continue. Everything included 3.3% is what we are promising, we will absolutely sustain that and will be lesser than that only.

Rohit Balakrishnan: All the very best. Thank you.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Thank you very much. Thanks for the opportunity. Sir, my question is, your press release page #13, it talks about EBITDA profit after tax included as a exceptional item, which is Rs 57 crore and Rs 32 Crore because I am new to this thing, so please can you explain this, which are the items and how it is one time in exceptional item?

Aditya Rao: Sure absolutely. So, you must have noticed some of the other callers had asked the question regarding why there was a big change in Q4 last year to Q4 this year in terms of profitability and EBITDA, there has to do with the couple of exceptional items, the main exceptional item is Pennar Renewables, which is a subsidiary we sold in Q4 of last year, so we effected a capital gains there an excess of Rs 21 Crore to Rs 22 Crore approximately, so that has obviously secured the numbers that is why you see what looks like a drop, but if you want to do an apple to apple comparison there is actually double digit growth in terms of the operating profit and net profit also.

Sunil Kothari: What I am asking this EBITDA of Rs 57 Crore and Rs 32 Crore PAT, which is related to what and which business and how much contribution to revenue in that business was doing you must have sold those business?

Aditya Rao: So, what we have is three items, we will break that up for you, but effectively the one-time items we had last year was some orders from Nuclear Power Corporation, which at that time we have said is a one time thing also at that time, revenue from PRPL also and EBITDA from PRPL also Rs 18.1 crore on that and also the PRPL sales, so the combination of all of that resulted in several onetime items pushing up almost Rs 57 Crore in terms of exceptional items, which is not there this year.

Sunil Kothari: This was related to EBITDA?

Aditya Rao: This is EBITDA, Rs 57 Crore of EBITDA, Rs 26 crore coming from PEL, PRPL contributing Rs 18.1 crore and the sale contributing Rs 13 crore.

Sunil Kothari: And this PAT is also related to that only?

Aditya Rao: Exactly, PAT is about Rs 31.9 Crore and that also did the same thing, Rs 5.8 crore of that is from PRPL, the sale Rs 8.7 crore, we can give you this breakup as well I think it is probably made public also in previous quarter, so we can give this to you.

Sunil Kothari: Sir, second question is segment profitability. I am talking about now current year evolving all exceptional and everything, the consolidated topline is roughly Rs 2,160 crore, Rs 2,133 crore and Rs 2,000 crore EBITDA, which is in terms of segmental profitability, which you disclose on the page #3, I am talking about the press release and the audited accounts, which we published?

Aditya Rao: Yes, your question is?

Sunil Kothari: My question is, this Rs 2,133 crore is the revenue excluding internal segment and before interest and depreciation is 9.4% the numbers, which you had given, so is there any scope to improve this margin, I think before answering to some question you said there is a one basis point improvement I mean 1% improvement scope is there, so this 9.4%?

Aditya Rao: Where is there 9.4%, I am on that page, but where is the 9.4%?

Sunil Kothari: This Rs 2,133 crore is your topline.

Aditya Rao: Segmental results that is Rs 2133 Crore. Once you remove intercompany intersegment revenue Rs 2,133 crore is the standalone segment.

Sunil Kothari: Right.

Aditya Rao: The PBT is Rs 96 crore, so that would be about 5%.

Sunil Kothari: So, what type of growth you see in this profitability?

Aditya Rao: We can commit double-digit growth in profitability quarter-on-quarter, Sir.

Sunil Kothari: Absolute percentage of margin would you like to comment?

Aditya Rao: In our strategy we target three things, operating profit, ROCE and PBT percentage, three things we target in terms of what we want to achieve. Over the long-term we expect to double our PBT percentage as of number it is right now 4x, so it will sustain and grow and that is all I can say right now, but our plan obviously strategy is long-term so over a four to five year period we intent to double it obviously.

Sunil Kothari: Thank you very much. Wish you good luck.

Moderator: Thank you. The next question is from the line of Tejas Mehta from Old Bridge Capital. Please go ahead.

Tejas Mehta: Thanks for giving me the opportunity. Just wanted to know one thing, in your other income line there has been a substantial jump if you remove the one of items of last year, so just wanted to know what is driving to the other income and how sustainable is it?

Aditya Rao: Other income consist of briefly two parts, one is the treasury income that we are close to around Rs 100 Crore is what we have investments with both the combined entities put together, so that is one and second is job work services what we do, so job work services income is there, the related expenditure of that is included in other expenses, so job work services income is what the Pennar Industries is sustainable that can continue to be there.

Tejas Mehta: Can you give me the split between treasury and job works?

Aditya Rao: Treasury approximately you can consider it is around Rs 40 Crore is the treasury and Rs 60 Crore is job work.

Tejas Mehta: So, this job work is the new thing, which we are doing because this line item is never there?

Aditya Rao: It used to be there in the consolidated and that is what is we are having and what we are using for working that facility to operate.

Tejas Mehta: So, basically this will kind of grow in line with your topline growth is it?

Aditya Rao: Yes, if the plants are occupied I think we would do our sales first and do job work as later, but if the capacities are idle we do have the job work charges, any capacity is non-bottleneck capacity if we can use it for others and get some few Crore out of it you know why not that is what that plus the treasury, whatever treasury income is there.

Tejas Mehta: Alright. Thanks so much. That is, it from my side.

Moderator: Thank you. Ladies and gentlemen that is the last question. I now hand the conference over to Ms. Bharati Ponda for her closing comments.

Bharati Ponda: Thank you gentlemen for being online and sparing time with the busy schedule and speaking to us. I appreciate your timeout. Thank you so much.

Aditya Rao: I thank all the investors who have participated in this call and thanks a lot.

Moderator: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes today's conference. Thank you for joining us. You may now disconnect your lines.