"Pennar Industries Limited
Q3FY17 Earnings Conference Call"

February 10, 2017

MANAGEMENT: **MR. ADITYA RAO – VICE-CHAIRMAN AND MANAGING DIRECTOR – PENNAR INDUSTRIES LIMITED**
MR. KRISHNA PRASAD – CHIEF FINANCIAL OFFICER - PENNAR INDUSTRIES LIMITED

ANALYST: **MS. NIKHAR JAIN - EMKAY GLOBAL**

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY2017 results call of Pennar Industries Limited hosted by Emkay Global Financial Services. We have with us today Mr. Aditya Rao – Vice Chairman and Managing Director and Mr. Krishna Prasad – Chief Financial Officer. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions at the end of today's presentation. Should you need assistance during the conference call please signal for 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. Nikhar Jain of Emkay Global. Thank you and over to you Ms. Jain!

Nikhar Jain: Good morning everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to Mr. Rao for his opening remarks. Over to you Sir!

Aditya Rao: Thank you to all the stakeholders of Pennar Industries joining us in the call. A very good morning to all of you and it is a pleasure to be with you on our investor conference call for the results of the company for Q3 ending December 31, 2016. We had a quarter, which was interesting. It was mixed. We had good growth in terms of revenue, where we recorded the sales of Rs. 440 Crores as opposed to Rs. 384 Crores on a consolidated basis.

The standalone sales of the company grew to Rs. 275 Crores for Q3 as opposed to Rs. 253 Crores for the corresponding quarter last year. We had an EBITDA of Rs. 43.89 Crores for the quarter, as opposed to the last quarter ended December 31, 2015 when it was Rs. 38.34 Crores. However, on a net profit level, we declined to Rs. 14.46 Crores as opposed to 16.96 Crores for the corresponding period last year. We will go through the reasons why this is but the basic reason would be that there was a very significant increase in the steel prices, which is the commodity for lot of our business verticals and we were not able to pass this increase on as quickly as we had hoped. So, for a few orders, say about 10% of the order book, we could not cover that raw material even though we tried our best to increase our inventory as much as we could but we were unable to pass through completely. So, a combination of that plus the higher interest rates because of higher working capital utilization in order to fund that inventory resulted the profit being lower.

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However, our feeling is that since the raw material prices have now started moderating again, we had a small increase in January and in February we have already received a decrease, we fully expect that this trend would reverse where we would eat out of inventory and working capital usage would come down and our margins and spreads should correspondingly go up as the price falls and we begin the work of passing on this price decrease now.

For Systems and Projects, which comprise the railways and solar business, we had a good year. We were up 20% year-on-year in terms of sales, Rs. 113.4 Crores was the Q3 number and we received orders from Integral Coach Factory and MCF as well and lot of wagon companies as well like Texmaco, HEIL, Cimmco and we also in the solar business did quite well with orders from many large developers and EPC companies, Green Coast, Sterling & Wilson, Mytrah, L&T and Tata Power are some of the customers we had. We also received orders from Mahindra and Nuevosol.

Tubes business did quite well. We recorded sales of Rs. 38.4 Crores and for this quarter and through the year, we believe this trend will continue and tubes should show strong double-digit growth for this financial year. Industrial Components too had a 22% revenue growth year-on-year and we are again quite confident that with the hydraulics business division now growing and us picking up a couple of new customers in the US, specifically Prince Hydraulics and expansion of Bailey as well, we are quite confident that industrial components will perform well.

The Steel Products business unit underperformed for the quarter, quite badly in fact. In the standalone business, out of the four business verticals, three of them grew in revenue and EBITDA but the one business which did not was our Steel Products business unit, where we have revenue degrowth of 7.6% and EBITDA degrowth of almost 50%. Again, primarily because of the raw material price increase, we had to take a decision on whether to continue servicing orders with substantially lower margins in the Steel Products business, which we chose not to, so that has resulted in the revenue declining and EBITDA as well declining.

Tubes, Industrial Component, Systems and Projects, PEBS, and Pennar Enviro, and our Renewables business, all grew in revenue for the financial year and in the standalone company, we have saw EBITDA growth as I said in three out of the four verticals and

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specifically in the Tubes vertical because CDW sales expanded significantly, we saw almost 30% growth in EBITDA.

With that I would like to open the line for questions, any further queries you have on each business units' performance or any queries you have on the subsidiary companies' performance, debt utilization or inventories. we would be glad to take the questions.

With that I like to hand it over to the moderator.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Ashwini Agarwal of Ashmore India. Please go ahead.

Ashwini Agarwal: Good morning and thanks for sharing the update. A quick question on Systems and Projects. The margins declined a little bit is this just an arithmetical effect of the higher steel prices going through or is something happening to the profit margin on new orders?

Aditya Rao: A good question. Yes, Systems and Projects did see a decline in EBITDA margin though EBITDA went up. The reason for that was the proportion mix change from being ICF and MCF dominated to solar dominated. In fact, in Q3 and Q4, if you look historically, we do tend to see solar revenues spike up, it was predominantly more this year, so because of that the margins moderated. So, solar got significantly lesser margin EBITDA-wise than railways, so this resulted in that. On individual orders, there has not been any major change in terms of the EBITDA margin that we see. In solar actually, it may have moderated by about 30-40 basis points but solar is a good business for us because it is an instant pass through, so for Q3 and Q4 we do not have a decline in solar margins but the mix is changed thus the consolidated Systems and Project EBITDA margin has come down a bit.

Ashwini Agarwal: Are you seeing some more orders in the pipeline in the railway side I mean what is happening there and when we hear up all this massive spend in railways capacity addition are you seeing any evidence of that in your order book or pipeline?

Aditya Rao: We are confident of our railways revenue going up. As of right now our railway revenue derives from two revenues streams one is a coach business and a wagon business. The wagon business I do not have a lot of foreseeability or clarity. We had a good year in wagons where we think we will have almost close to 70 Crores in revenue in wagons this

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year. These are indicative numbers. This is not guidance but just to give you a feel for the numbers you should expect 70 Crores plus in wagons this year. So, in wagons we do not expect a massive amount of growth next year. What happened this year, we do not see replicating next year but what we do see happening is in the coach business, where we have now opened up not just ICF but also the Modern Coach Factory in Raebareli. We have now started making under-frame SMBs for the new LHP, the new modernized coaches that are coming out. We have started now making modular toilets as well. So, the combination of these plus with our new stainless steel tube division coming up, we are getting into certain other products in the coach business. We are quite bullish that there is going to be double digit growth obviously this year and next year as well. So, compared to last year's 140 Crores railways business I think you should expect a high double digit growth this year I think we can confidentially tell you that railways do well in this financial year. So, we are bullish on railways because of new product development because of the foreseeability we have in coach orders. The one thing I will caution about is the wagon orders. We do not have a lot of foreseeability so we should not assume growth over there.

Ashwini Agarwal: Solar should continue to grow in the coming years, Sir are you now reaching the level where solar is going to plateau out?

Aditya Rao: We were also bullish on solar. So we are actually ramping up capacity in a big way in solar. So, just this month, we commissioned a new SAMCO forming capability with inline punching, which improves our solar productivity by a lot. It effectively eliminates 30 workers. So, one thing is it boosts margins but more importantly it boosts capacity as well, so we are having two more such mills come up in February. The point about this is our confidence that the solar is going to remain very good business for the next two years at least. Now from a global point of view, we do see the module prices falling and the cost of execution of a solar power plant falling. Consequently, our business has become more attractive because we are contributing to an increasing share. Our proportion of a solar power project, which comes from us, that percentage is increasing and we believe if even it is possible for us to reach 20%, so if that happens then, we can project our revenues with lot of confidence in the solar business division. I would say that at least for the next couple of years we will be bottlenecked more by our capacity than by the market in terms of solar. So, in solar and railways coaches, we are bullish.

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Ashwini Agarwal: Last question is that I missed your comment on this steel margins have come off, I mean one thing is the inventory went up and you said you have done about 10% of your orders you could not pass the steel price through but the margin contraction seems to be quite severe. Did I miss something there?

Aditya Rao: No, it is exactly that. So, for the orders that we had on a consolidated basis, there are two specific business verticals which get impacted by steel price increases by a lot; one is a steel product business unit in Pennar Industries and the Pennar Engineered Building system. So both of those are reasonably heavily dependent on steel. While both of them cover the raw material cost as increases come up, any orders that they have tried to cover it, when we saw the inventory going up there had to be a natural limit. We were not comfortable. We are still not comfortable sitting on so much inventory. In Pennar Industries, we have 30,000 MT of inventory and PEBS has 20,000 MT of inventory. It is not right. So, we took a decision that we would rather lose some revenue. But some customers, I mean the good long term customers, these are people who been with us for a very long time and we also operate in something called a basket where we do not just provide steel products to them, we also provide some tube products for them, some industrial components for them, so we have to take a call to service some of those orders at the lowest spread, because they were not giving us the higher spread. Steel price increased by Rs.9000 per MT and they were not giving us that much. They were giving us Rs 6000-7000, so obviously, the orders that we do undertake where at those prices are going to hit the margin quite strongly. So, that is what happened in this quarter. The combination of us holding on to higher inventory, this of course not EBITDA but at the PAT level, and having to not being able to pass on the cost fully in these two verticals have impacted the consolidated margins and the standalone margins.

Ashwini Agarwal: Then how do you plan to counteract because yours is a conversion business, you buy a flat steel and you process it and you sell it I mean so it stands to reason that as a percentage terms your margins will fall when steel prices rise because your revenue should grow by the same amount but you seem to be getting caught in this business where your raw material prices rising but your customers cannot take that increase I mean?

Aditya Rao: Yes, that exactly what happened in fact, to be perfectly honest, that describes the situation. Typically on a quarter, you see swings of Rs.1000, Rs.2000, even Rs.3000. Our ability to pass that on is very good but if you look at what happened last quarter from September to

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January, actually it was reasonably unprecedented in the last few years, we have not seen an increase of that nature. So, yes, the fundamental risk underlying some of our business units is that a very rapid increase to steel prices is going to give us issues in terms of (a) being able to pass through those costs to our customers and (b) because we are going to react and start buying raw material, it will cause our inventory to shoot up. That is the risk what we face. In fact, if you look at some of our competitors, I would not be mentioning them. Anyone who is chosen not to stock up the inventory has had a far-far worse impact on their margins and getting into negative EBITDA quite frankly. Now, we take a call based on what the market indicates to us, so there is a certain amount of inventory coverage we can take but can I cover all of six months' inventory, no, according to me, that would not be very healthy thing to do. So, we took a decision, we said we will cover as much as we can and for the remaining we will either go to our customers and tell them we are sorry and in some cases we will have to execute it, and especially for long term customers people who have been there for a long time and the combination of that decision making has resulted in EBITDA moving down by substantially almost 100-150 basis points and also PAT being lower than last year by about 15%.

Ashwin Agarwal: Thanks Aditya. All the best.

Moderator: Thank you. The next question is from the line of Pawan Nahar of Religare Capital Market. Please go ahead.

Pawan Nahar: Thank you. First, I have a request or a suggestion would it be better that you disclose your EBITDA in terms of rupees per MT for the businesses versus percentage margins?

Aditya Rao: I think you are right. We can disclose the rupees per MT and it would make sense. Basically, we can report rupees per MT EBITDA and we would have to do it division wise, may be in some cases even product wise, because solar, railways, CRSS, they all have very different rupees per MT in terms of EBITDA margins and of course even spread and other things which lead to EBITDA margin but we can disclose this if you would like and I think we will reach out to some of our other key investors as well and if that is what they want us to report, we absolutely can do that.

Pawan Nahar: Because honestly this can reduce the volatility in your reporting because the denominator keeps changing while the numerator might just be stable, so that was one thing.

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Aditya Rao: I agree.

Pawan Nahar: So that was one thing. Second thing was I was looking at your results. Now, there is a big jump in depreciation. For nine months it is 20 Crores versus 14 Crores. Now, when I look at the standalone for Pennar Industries or if I look at the PEBS both are literally flat so what is the change?

Aditya Rao: It is a good question. We have a solar subsidiary, which is an IPP based model. We have bid on and received them and executed it in March 2016. This is an entity we intend to sell. We have received it and it was beneficial for our solar business in terms of getting our tracking systems online and others. There was target of opportunities but we have implemented this and we intent to flip this asset now. We will be selling this asset over the next few weeks to months is how I would put it and that will result in the depreciation coming back, but the consolidated depreciation is higher because of that reason because we have an asset in a subsidiary now which we did not have last year at this time.

Pawan Nahar: Would that also be the reason for the very sharp jump increase in interest cost because inventory was the last quarter as well?

Aditya Rao: Let me break up the interest cost to you. So, basically we had an interest cost jump of about Rs. 1.6 Crores in Pennar industries standalone.

Pawan Nahar: I am just looking at nine months the interest cost is higher by 16 Crores, 7 Crores of the changes in PEBS and 5 Crores in standalone. So actually it has not much to do with solar but it is the main businesses with Pennar Industries and PEBS?

Aditya Rao: For the standalone business in terms of what we were reporting is for Pennar Industries standalone and because of the investment Pennar Industries has in the solar subsidiary. So, the combination of that increased it. So, Pennar Industries itself has about a Rs. 1.6 Crores increase plus because of the investment in the solar subsidiary that increased by close to about Rs. 3 Crores so you should see about I think Rs 4 - 5 Crores or as the total increase because of solar and also Pennar. And PEBS, for the nine months we have shared and for the quarter is what I am trying to explain to you, the major increases. The number we are giving here are for the quarter. So, for the third quarter in question, we had PEBS interest cost go up from about 1.7-1.8 Crores to about Rs. 4-5 cr which is about a Rs. 3 Crore increase so that is the reason for the increase in Q3.

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Pawan Nahar: So this PEBS I mean the interest cost will remain high-elevated right we should assume that?

Aditya Rao: In Q4, the interest cost will come down substantially. For the full year in question as opposed to 12 Crores for the full year in interest cost in PEBS last year, this year it will be higher but it is not going to be higher by more than 50%, probably less than a 50% increase.

Pawan Nahar: In fact what I could see was that one more reason why PEBS interest cost or finance cost going to be higher this year, if I recall right last year the Pennar Industries was giving a big bank guarantee and which was the interest cost of that was been owned by Pennar Industries not by PEBS or the bank guarantee?

Aditya Rao: I will look back to the conversation last year but for the last five years all of PEBS' working capital is being financed by PEBS and Pennar Industries provides the corporate guarantee, which is falling away this year but either way that would have had zero impact on our borrowing cost. The cost of capital that we have actually is quite efficient. In PIL, our cost of capital is around 10% and PEBS has something similar, may be 50-60 basis points more. But PIL working capital is not used in PEBS and it never been. PIL only provides a corporate guarantee for PEBS. It does not have any interest charge.

Pawan Nahar: What would be the cost of the solar project. Is it only 50 Crore that you put as equity in the subsidiary or is it more?

Aditya Rao: 50 Crores is the equity but the subsidiary has its own debt. The total megawattage is about 28 megawatts that is being developed and our expectation is that we sell it for a reasonable profit in the next few weeks.

Pawan Nahar: What is the total capital employed in that business?

Aditya Rao: I will get back to you on that. We have not publicly declared these numbers, I am going to check and get back to you but you can do the math yourself, it is 28 megawatts at market rate is the capital employed but because I have not given the number out yet, I think we will have to declare it and then give it to you.

Pawan Nahar: What is the US entity that you were trying to acquire? What is the rational and what is the price you expect to be?

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Aditya Rao: So, PEBS is in the engineering services business for the last two years. They started off doing the design build engineering and detailing work for companies in the US which do what PEBS does in India, which is metal building systems, custom design building systems. So, that vertical has become substantial and we have close to almost $2 million worth of revenue coming in this year in that business vertical. What we wanted to do is, this is all work that has been done in India but what we want to do is have a base in the US where we have the sales front end, we have professional engineers who can stamp drawings and also some project management support. If we have that, we can create a very good scalable vertical out of engineering services. That is the thought process, so the rationale we have done that acquisition is to get the sales front end. The materiality of it is not very high because we are just buying a small company. The revenues of the company we are trying to acquire while we will not be giving you the name of the company or the acquisition value until it's finalized, the revenues at about $1.3 million and the acquisition value would be less than that. So this is an acquisition, which will be borne. You should think of the cost of being perhaps close to a million dollars and we will give you the exact number once it is finalized.

Pawan Nahar: Thank you so much and I really look forward to seeing your EBITDA being expressed into rupees per MT.

Aditya Rao: We will speak and try to get that done and get you that clarity. Thank you.

Moderator: Thank you. Our next question is from the line of Piyush Goel of India Capital. Please go ahead.

Piyush Goel: Hi Aditya. My question is that like I know the steel prices have gone up last few quarters versus what they were one year ago but the steel prices on an average in last six seven quarters are still lower than what it was they were in 2009-2010-2011 cycle at the time when you used to make 13% to 14% EBITDA margins, I am talking about standalone. On an absolute steel price is not higher as those days and now you are making 8%-8.5% margins versus 13%-14% so generally I am trying to understand how do your contracts work? Are you better off in a passing in a higher steel price environment or a lower steel price environment or as the competitive intensity changed in the last five years that the pricing power for the industry has changed?

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Aditya Rao: For this question, we will need to go into little bit of detail, so I will. So, comparing our margins from 2010-2011 to now on an overall basis may not be the best way to understand us. I think what you had fundamentally in terms of our revenue streams under EBTIDA margin streams in 2011 was dominated by wagons. We had close to Rs. 400 Crores of wagon revenue which was at 30%. Now from financial year 2012, that fell off a cliff, so we straightaway fell from as you said 12%-13% EBITDA to 9%-10% EBITDA and we have been range bound between 8.5% to 10% from a standalone basis. However, the growth of our other businesses such as PEBS or coach business or solar business and also now in environment business, have resulted in the consolidated margins scaling up but the raw material prices in 2010 and 2011 would have been at 40 but what matters for us is, our customers are aware of what the steel prices are, they are able or willing to give us the certain spread or a certain percentage margin on top of that and we also try to get to a certain percentage margin as do our competitors. So, the price in 2011, yes, was there and if these steel prices do persist for the next one-two months, we will get back to those margin levels because our customers would have to accept the price increase. What we talking of in terms of margin decline in Q3 is because of a shock. When you have a sudden increase, your ability to pass on with some customers is good and some business units is great, like solar. It is much more muted in places like CRSS, CRFS, the steel business unit. So that is where we had a challenge, those are the business verticals where we had an issue in terms of passing on those cost increases.

Piyush Goel: Understood. So coming back to wagons in that case so you said you did 400 Crores of revenue, which is now I think down to 60-70 Crores you said so like is it because generally the wagon capex by the government like by the railways have reduced to that extent from 400, like your market share in total wagon capex is it the same or you have lost wagon business to somebody?

Aditya Rao: Our market share in wagon capex has remained the same. You would see a slight difference because at that point in time, there were just three players and now there are six players in the wagon industry who can do what we do. We are the larger ones but they are additional players but the primary issue is that what coaches have managed to do, wagons has not been able to do. So, to give you a break up in the year 2011, our wagon revenue was Rs. 400 Crores and coach revenue was Rs. 30 Crores. This year, right now, our coach revenue was Rs 140 Crores, we should expect let us say and our wagon revenue is much less than Rs. 400 Crores. So it has reversed in a sense but it has not even caught up with what the total railways revenues was in financial year 2011. So, what do we see happening on the next few years, we see coaches continue to grow, wagons being where it is and may be once the dedicated freight corridor, all of those things come up, that scales up. So we cannot project it as such but in coaches, we have a lot of confidence that it will continue to grow. So, we will get back up to where we were in 2011 but the rationale behind the margins being that high in financial year 2011 was entirely because the railways business, the wagon business rather was much more attractive in 2011 than now. Whereas now we have a blend of business contributing to that and if you would look from a revenue level, we are higher than where we were in 2011 and at consolidated EBTIDA level also, we will be higher this year than we where in 2011. So we will scale up revenue, EBITDA, even margins but from a comparison point of view, a business unit wise comparison is probably the most appropriate way to do this.

Piyush Goel: Understood. My next question is that within the four categories in your standalone business if I take out railways and I take out the commodity steel business the other two businesses tubes and industrial component both will have five six quarters are announced like industrial components around 13 to 15 Crores revenue 1 to 2 Crores here and there and same for tubes business is around 38-40 Crores one or two Crores here and there why are two businesses not growing when they are seeing the cycle for those two industries turning. I mean I can understand auto for this quarter may not grown because of demonetization but generally over six seven quarters basis both your business were not growing at all on a topline basis?

Aditya Rao: You are right, if you were to map out the tubes revenue over the past six-seven quarters as you said, revenue wise would be flattish. EBITDA wise you would see growth primarily because the revenue mix has changed but let me answer your question in a little bit more detail. Our tubes business currently consists of ERW tubes and CDW tubes. ERW tubes is a lower margin business, 7%-8% EBITDA and CDW is the higher margin business which can go up to 15%-16% plus EBITDA also. So, we have tended to increase CDW at the expense of ERW. That is the conscious decision we have taken because we only want to grow business and invest capital in businesses which are more than 10% EBITDA. Now, be that as it may, we have had a capacity constraint in CDW for the last year and a half. The capex that we have undertaken comes on in March 31, so as of March 31, say in the month of April, you will have the expanded capacity in CDW with new draw materials, you will have expanded capacities in ERW also, and also we are adding a new stainless tube line. So, you

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should expect the tubes business division to breakout and have revenue growth, strong revenue growth over the few quarters and even in this financial year, for example, if you have to net it off, our last financial year tubes revenue was about Rs. 153 Crores gross sales. In this financial year, you should expect a strong double-digit growth there as well. But you are right in that, if you were to map out last six quarters, you would see tubes being about flattish plus or minus 10 percent and over six quarters we should have seen more significant growth like 20%-25%. Our competitors are certainly growing at a faster rate. We just got caught in the middle of a capex spend. We initiated our capex, our project, our expansion of capacity and that is hitting now. So, this will stop now, the tubes revenue not growing at a very fast rate will stop and has already stopped according to me. Next, industrial components primarily comprises of press components we make for the white goods engineering sector and our hydraulics business. It has been flat for a long period of time now. Again, the export business here is picking up. This year also you will see some growth but again it could be as low as single digit in the industrial components; however, next year, the capex for business division again kicks in and these are not very high capex numbers both for tubes and industrial components. We are talking about single digit Crores that will allow us to substantially ramp up revenue. Especially hydraulics, our industrial components head unit is very bullish. We picked up, as I mentioned, Prince Hydraulics as a customer and Bailey continues to expand. We are also doing a team ramp up by increasing our business development, our team size there, so you will see growth in both these business verticals in the next few quarters but I agree with you, in the last six quarters, tubes has been sort of flattish and as has industrial components.

Piyush Goel: One last question for me, there was news around new merging Pennar Enviro back with Pennar. Is there any update on that what is your thought process?

Aditya Rao: We have declared to the exchanges that we have appointed advisors and also fairness opinion providers. The process is right now that they will, over the next couple of weeks, be presenting a potential valuation of Pennar Enviro to the Board. And this is a decision that has to be taken by the independent directors and then the decision has been approved by the other shareholders of Pennar Industries other than us. So because we are an interested party because I, myself, am an interested party, I would be recusing myself from that. My impression of the timelines is that the independent directors to take this forward reasonably quickly and to take a decision on it pretty soon, is my opinion but it is a process that is being run by independent directors and all of our other shareholders will have to weigh in

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before a decision is taken but I think we have all the milestones in place, we have advisors appointed, we have fairness opinion and the merchant bankers appointed, they are going to be appointing the lawyers as well and then the independent directors will take the call that they feel is in the best interest of the company.

Piyush Goel: Thanks a lot.

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

Vikram Suryavanshi: Sir, can you just give us some how is the order book in different segments?

Aditya Rao: The businesses that report an order book are railways, solar business, PEBS, and Pennar Enviro. Those are the four major order book reporting businesses. So, for a railways business we are at a Rs. 95 Crore order book including ICF, MCF, wagons and our new under frame assemblies and modular toilet business verticals. PEBS is about Rs. 440 Crores, 400 plus something but I assume it is Rs. 410 cr but I will confirm that number to you. The order book is around that. Enviro is at a Rs. 200 Crores order book and our solar is quite high actually. I will get back to you on that number but its actually changing by the day, just yesterday we closed a larger order from Azure Park, I will get back to you but it is quite healthy, it is well beyond our ability to execute also consistently but we are overloading on orders right now because we want that division to grow well in this quarter.

Vikram Suryavanshi: Okay and how was the revenue of Enviro in this quarter and nine months?

Aditya Rao: For the nine months in question, there is growth over last year. We do not report Enviro numbers and we want to be exceedingly careful where Enviro is concerned. So, let us do a release and I will try and get the information to you through that so that I don't to give it out in case we are not supposed to.

Vikram Suryavanshi: And how is the performance because we said earlier that we would be focusing on special grade steels to improve the margins and all that, so how we are doing in that side?

Aditya Rao: So, I would be a little disappointed as of right now and we hope to improve our special grade sales in the fourth quarter but as you know, I mean from the results, one of the divisions which has gotten heavily impacted because of this raw material price increase is

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our steel BU and special grade sits on that. So, while we picked up new customers including KM Seating and others, we have been unable to scale up that to the extent we want to. We wanted to do about 1000 MT to 1500 MT a month, we are sitting at about 700 to 800 MT right now. I am confident by March, we will get back up to 1500 MT a month, which would translate to about Rs. 10 Crores a month or Rs. 120 Crores a year. I am confident we will get there but as of right now, the last quarter performance in special grade was bad, was definitely not up to what our expectations were when we set up the business. Primarily, entirely I would say because of the raw material price increase shock.

Vikram Suryavanshi: Got it. Okay, thank you Sir.

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

Manish Bhandari: My question is regarding the hydraulics business. What is the blue print for the hydraulic business and what is the achievable target and do we have the requisite management bandwidth to make it a success. If you could share more in detail about the hydraulic space?

Aditya Rao: Good question, Sir. So, from last year or year and a half almost, from not even worth mentioning kind of revenue in hydraulics, this year we expect well over 6 Crores of revenue. Again, low numbers but with the addition of Prince, with the addition of Bailey's new orders that have come in and we are also getting into telescopic cylinders and others, the order book for the company we believe is going to sky rocket. So, next year we are expecting nothing less than 20 Crores in terms of sales. So, obviously, if nothing grows from industrial components also that by itself gives us a pretty high growth rate, well in excess of 20%. But what we are also doing is the ramping up the manpower there to get in a lot of people from some of our competitive companies, specifically in business development and product development. So, we are beefing up those areas. That process has been well underway for the last three-four months but it is bearing fruit now and we also have other export orders to companies in Israel, for example, which are on the block right now. So, what we think is the blueprint, what I would draw out for you, what I would guide you to for the next couple of quarters, next one year let us say, for hydraulics, is you should expect high growth, you should expect a revenue growth to least 20 Crores per year and in addition you should look at our team which is ramping up and making sure we can get to the larger companies in this business vertical. Our competitors, Wipro is Rs. 1000 Crores in

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hydraulics, Dantal is very big as well, Veljan is very big, none of these guys are less than 100 Crores. So, we should do a better job, frankly, we should improve our performance here. It is something that the Board also has taken note off and we are taking this very seriously. The addressable market is there. We have our team in place and we have some amount of capex going on, about Rs 3 Crores to add industrial honing and skiving capabilities. That combination, I am very confident, will lead to high revenue growth in hydraulics.

Manish Bhandari: Yes, but my impression is that how do you dislodge the existing suppliers in the system or is the market is growing or do we have any kind of technological edge may be because of our superior understanding of the business so what is our source of competitive advantage in a hydraulics business where it is so difficult to make someone switch to a competitor?

Aditya Rao: When we look at gaining market share, which is exactly what we are trying to do, we look at two things, one is a new customers themselves, so sometime you need not steal markets, you may open some new markets. The vast majority of our hydraulic business right now is exports, like Wipro's. So, the competitors we are hurting now are Chinese companies. So, Bailey is moving their Chinese business over to us, so that is one way. The second thing, India customers the BEML and others, how would we take market share from our existing Indian companies. Very simple. We do have several competitive advantages which makes our hydraulic business more profitable than theirs. We make our cylinders, we make our own tubes. We have very good understanding of metal working capabilities, going back decades, so the combination of those capabilities having that raw material strength, having that back end procurement strength, will ensure that we have, compared to our competitors, way more, may be not Wipro's, but way more of these companies. So, we should be able to gain market share from them and I am not too concerned about whether we will be able to do that but our tube making capability and our ability to buy value added steel, I think are the two things, I would point from a competitive advantage point of view. Also, the markets we are looking at are predominantly exports not domestics.

Manish Bhandari: Do we have a cost advantage?

Aditya Rao: Absolutely, if you were to compare us to people who would buy let us say 20%-30% of the steel and value added steel that we do, our price difference is close to 200-300 basis points, that translates into an advantage plus the tubes themselves. We are not buying tubes from

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elsewhere like our competitors would. They do not have ERW tube capabilities, so we are doing it in-house, then you would save on the freight cost, you save on the job work, you save on the variable cost, all of that does add up. I am bullish about hydraulics. I think I can safely promise high double digit growth but again that is easy for me to do, because my competitors are Rs. 100 Crore plus and we are at Rs. 6 cr. So, you should expect growth here but I think we finally have our heads right here in this business vertical.

Manish Bhandari: My second question is regarding the solar mounted with the PEBS Solution so have you started that or is there any headwind you made on that product?

Aditya Rao: We have. So this MMS system for PEBS will comprise close to 10% of PEBS revenue this year. So we have an order book for that business of close to Rs. 95 Crores in PEBS. We will not convert all of that this financial year obviously because otherwise 10% of PEBS will be at Rs. 1000 Crores this year but we have had a lot of success and the margins are quite good as well. The solar business in PEBS itself we believe would be close to 10%-12% definitely plus EBITDA wise is what we expect. I am sure that once we add our tracking solutions as well, we are picking up our first few orders of tracking. I think solar and PEBS also should grow at a very fast pace.

Manish Bhandari: How is the competitive intensity in the PEBS business whether there is any incentive or is there any financial position have changed for any of your competitor significantly or is there any undercutting going on, so if you could you throw some light?

Aditya Rao: Directly about competitors, I prefer not to speak. But I would say the market intensity, I would say, has as such declined. There have been some old players who have gone out or decided not to be present in the PEBS business but Kirby remains obviously a strong competitor. They are the largest in India in this field and they are almost twice our size, but I think we have our market set out. I think we are focusing on variety of the product development at PEBS. We have a very powerful R&D wing, which is being developed there. So, we are looking at light gate steel buildings, we are looking at high rise buildings, and we are looking at automated cold form buildings, which we think are very good opportunities in PEBS. So, we will have our differentiators. We do not even look completely like any of the other PEBS company. We do lot more product development, a lot more R&D and our product depth is much broader. No other PEBS company in India does everything PEBS does without exception. So, consequently, I think our addressable

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market shares will increase. We should not have any challenges scaling up revenues. You will see revenue growth this year in PEBS and I think that will persist for the next few years. We also have the Baroda plant up as well so that has also increased capacity. It has opened up the north market for us, so addressable market size also increased in that way, as geographically we are now catering to the north, which we were not before.

Manish Bhandari: My last question is regarding the railway business, what all we can gather from the budget document as you trust on the capital expenditure related to railways so the wind is sailing to you, so I am just wondering that is there any challenge what we do have in scaling up the railway business and I understand the differentiation between the wagons and coaches, so is there any challenge you have reporting about 500 Crore of railway business next two years or so?

Aditya Rao: So, that actually is our target to scale revenues up in railways to Rs. 500 Crores. We believe that addressable market size is definitely going to be there for us to achieve that. But, we typically do not put a lot of trust or value in the Railway Budget because they promise lot of things. They do not end up doing lot of them. I mean, obviously, from us too, you would expect us to do what we promise, do what we commit and okay, a certain 10%-15% fine but if were to fail by 50% obviously you would not be happy. So, it is a similar thing with us and railways, let us say, so we do not depend on the Budget as indicators. What we look at is we are directly line of connectivity with ICF, with MCF, with all the major wagon manufacturers with the Railway Board, so we understand exactly what they are trying to do, what their capex is like, what their output is like and what their business plans are. So, with ICF looking at 30% expansion and I believe they are very serious, I think they have a good team there, good people and they are very committed and I am quite sure that coaches are in a very good spot right now to scale the revenue. Wagons, I wish I could say the same thing but there is just not enough clarity in terms of exactly what is happening. Once that comes in, I would absolutely we would communicate that to you but as of right now, railways growth will depend on coach business going up, opening up MCF further and of course our entry into underframe assemblies, complete assemblies, which is a beautiful product if you look at it, I mean, it is almost extremely complicated manufacturing fabrication assembly. So, that plus our modular toilets business and also the interior business which are getting into, coach interior business, will ensure that ICF and MCF coach business scales up. So, for that we are quite bullish. I can very confidently say that revenue will increase.

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Manish Bhandari: Thanks for your insight and thanks for your time.

Moderator: Thank you. Our next question is from the line of Vaibhav Badjatya of HNI Investments. Please go ahead.

Vaibhav Badjatya: Hi Sir, thank you for providing me this opportunity. I was kind of looking at your performance historically and I notice a peculiar thing that from FY2011 onwards there is a significant increase in bank charges so to say I am not talking about interest cost. I am just talking about bank charges. I just wanted to understand what are these bank charges and for which segment of the business do we incur these charges?

Aditya Rao: Bank charges typically refers to our usage of non cash limits such as LCs and BGs. When you open an LC or open a BG, there is certain margin money that is sometimes put down for some business units. Some business units do not have that but there are always opening charges, responding charges, so those are the ones that we classify in bank charges. The usage of BGs have exploded over the last four years, primarily because of the growth of PEBS because the way PEBS' business model has been structured, we give an advance bank guarantee for advances and performance bank guarantee for the project management. Now, I do want to obviously stress to you that none of these BGs or anything has ever come close to being invoked. There are security instruments. Their intention is not to be invoked, their intention is to give our customer comfort that we will do a good job. So, we replace them when we can with corporate guarantees but it has not been enough. It has become standard in the industry to provide these things so consequently the usage of BGs have gone up. Now in Enviro scaling up also, Enviro also has similar business model, so you are seeing increases in those charges, basically our exercise on non-cash limits generates bank charges.

Vaibhav Badjatya: Yes, but I was actually coming more from a standalone business perspective not Enviro and PEBS, because when I standalone if I look at that I mean there is a significant jump in bank charges so do we have lot of BGs in standalone business as well or is it some, so what would be the major proportion of bank charges is it LCs or is it BGs or what it is?

Aditya Rao: So, for standalone, it will be LCs. Our LC usage has expanded a lot as the kind of raw material we buy have increased as well. It would be that and also customer LCs. If we discount customer LCs, that goes into bank charges.

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Vaibhav Badjatya: So this, the reason I was asking this is from a broader question perspective so you know in one of the earlier calls, I think may be about one, one and half years ago you said that your focus is always on ROCE and EBITDA margins and that is how you kind of makes your business so now that focus on ROCE is correct but only if it close to ROE is mostly and I think this is that where the major disconnect happens so if you focus on ROCE and does not factored in LC and BG costing margins then it kind of gives you a very medium ROE kind of giving you good ROCE so there might be a kind of inefficiency in decision making because they are focusing on ROCE and margins and there is a lot of bank charges in form of LC coming here so I just wanted to hear your thoughts on that how the decision making works?

Aditya Rao: It is a good point. ROE vs ROCE. Basically whether our efficiency measures are capturing our usage of non-cash limits I think would be the way I would understand your question. I agree with you but I just want to understand that do you believe and since I do not have the numbers from four years ago right now and I will do this analysis. But, do you believe our use of non cash limits is significantly changing or impacting return on equity?

Vaibhav Badjatya: It is definitely, if I look at your numbers I mean so let me just put it in this manner so if I compare your business performance there is lot of competitors I see a good EBITDA margin but I see similar ROE and the reason is if I adjust your EBITDA margin with the bank charges you are actually on par with some of your competitors if you are not incurring this bank charges and that is kind of that is what I am trying to understand that is it some decision making efficiency out there and how we can remove the inefficiency, so probably if you whenever you make a decision about ROCE or EBITDA margin build your bank charges into your margin decision and then see whether it is worthwhile from ROCE perspective then probably it will give you a good picture and then the decision-making would not be a proper whether a particular business line is value accretive from a ROE perspective, it would be from a ROCE perspective if you approve bank charges obviously but if you include bank charges in your EBITDA margin and then calculate ROCE it will give a very different picture.

Aditya Rao: I am going to thank you for this question. We are going to think about this some more. Our CFO is also with us. He will review this thoroughly. We will look at bank charges and how that affects return on capital employed. There is nothing more important for us than capital efficiency and obviously working capital efficiency. Bank charges do come into that, so I

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will review this and get back to you. If it is possible for you to drop me an e-mail or something on this, we can talk about this. I am, frankly, little surprised that it is impacting but I have to get the numbers before we understand but I fully agree with you that we are committed to capital efficiency. There is nothing more important for us. We will look into what can be done to reduce bank charges if they are impacting a return on capital employed, which you are saying they are but we will look into the numbers and get back to you.

Vaibhav Badjatya: Thanks a lot for this, this is quite helpful. But have you any kind of at any point of time you tried to see that what is our annual interest cost on the kind of, see if you take an LC what is the exposure that we are taking and what is the annual interest cost in terms of bank charges that we are paying for this?

Aditya Rao: Are you saying that what is the annualized cost of usage LCs would be?

Vaibhav Badjatya: In terms of as against the exposure that we take, as against the fund exposure that we have in LC versus the charges that we will pay so what I am trying to understand is in spite of issuing LC so there is a cost of issuing LC and the other way to do it is actually put in more capital into the business and basically it has to bank borrowing or through equity so what would be that cost or what will be cost of both the alternatives, that is what I am trying to compare?

Aditya Rao: That would be a little difficult decision for us to take primarily because when we give out LCs, LCs by definition will be more expensive, especially when you consider discounting into question, LCs will be more expensive than let us say straight up CC or cost of capital, cash for example, but I cannot pay my vendors in advance. I could, but if I do that and they deliver, they keep up their end of the bargain, then it is difference of 10% for our cash and 12% probably for an LC on an annualized basis, so my interest cost could go down by 20% on LC usage interest cost. But we cannot take that decision because I am not certain that if we give all of our vendors all of our money upfront instead of an LC and LC can include conditions such as performance, such as delivery instruction at site and also we have a lot of quality control checks, which can be put in place and LCs are very compliant, they allow for that, but if I pay my vendors up in full and he will just give me something, which may be good, which may not be good. I understand what you are saying that the expense of using LCs as opposed to an alternate instrument or just straight out paying them, but let me do this maths and get back to you, Vaibhav.

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Vaibhav Badjatya: Yes, not an issue. So, just one more thing, instead of paying vendors early there might be some price negotiation that can probably reduce our LC cost, net of the benefit that we transfer, but anyway we can have a discussion later on when we looked and when you done your analysis. My another question is on slightly longer term perspective again, so if the steel companies getting into this value added business because if I see your earlier business cycle from 1995 to 2005 many problems that you faced at that point of time was due to steel companies particularly Tata Steel entering into your domain and we not being able to compete with them so this time around it is not happening yet but what prospects the steel company going ahead to do this same thing that has happened to us in the earlier business cycle from 1995 to 2005?

Aditya Rao: If you look at our business verticals now for what prevents them, nothing prevents them. In some cases, they have also tried just like we have PEBS, JSW for example. I do not want to criticize, JSW. I think they are an amazing company but JSW has JSW Severfield for example, so that is a joint venture where they make high rise buildings. We will compete with them on occasions. So, nothing prevents them but how successful they will be with that is a little difficult to see because globally also if you see. We see companies like Nucor in the US for example they are a big steel company and they have pre-engineered building, they have a subsidiaries as well. So I think the steel companies desire would be to push out tonnage, would be to go from one million to five million to ten to sixteen million, which is what JSW is at right now and they are the largest steel company in India, so that is their focus. With everything that we do, with as much value addition we have, we may be three or four percent of JSW's turnover but the amount of tonnage that the output is far less. I mean, the output of PIL, PEBS, everything combined, we probably do close to about 200,000 MT. JSW does 16 million MT. So, I do not believe that downstream affords them a focus area for them to increase. They would much rather have a larger basket of customers, that is my perception about how someone like Tata Steel or JSW or a Bhushan for that matter want to look at it. Getting scale, investing capital and scaling up revenue and profitability that way, by increasing output, purely that. Our view point is a little different, we are more about cash efficiency, operating efficiency, high margin businesses, IP based businesses, system integration, know-how, design, so those are what we are based on. So, I believe, this is my personal belief, that these are two different universes and we will go ahead and compete with engineering companies with automotive car subsystem providers, with system integrators, those of the guys we will compete, whereas JSW and Tata Steel, Bhushan, they will go on a commodity thing. Their goal is to push revenue and push

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EBITDA and push tonnage most importantly. Downstream offers them little few opportunities to do that and that is my understanding why it would not be an attractive investment for them to make because it would not give them what they want, first and foremost, which is scale. Not Rs. 1000-2000 Crores but JSW's plan must be how do I increase my revenue by Rs. 20,000-30,000 Crores. We do not think that way right. We are thinking off steady 20%-30% growth. How do I make sure my return on capital employed is above 20%, those kinds of things. JSW has Rs. 60,000 crores of debt. There is no way they will ever get to 20% ROCE.

Vaibhav Badjatya: Sir do we have any a specific cost advantage in any of our business segment vis-à-vis our competitor or the integrators or the steel companies I know obviously steel companies it might be difficult but just wanted to hear your view on that?

Aditya Rao: Vaibhav, I do want to answer. But may I make a suggestion? Would it be possible for us to get into a separate call and we can take you through because it would be difficult for me to answer from what I see, I think the question queue is building up, so my suggestion, I would love to do a call. I enjoyed your question but we can do it off-line. Do you think that is better?

Vaibhav Badjatya: Yes, it is not a problem so I will shoot an e-mail to the Company Secretary and the probably we can connect, not an issue.

Aditya Rao: Thank you. I will touch base with you.

Moderator: Thank you. A next question is from the line of Piyush Goel of India Capital. Please go ahead.

Piyush Goel: Aditya, my question is on wagons again and I am sorry if this question is a little un-informed but I am look at Texmaco, Titagarh their topline since now come back like two bad years, but last one and one and half years the come back 2012-2013 kind of levels, which I guess would be the good proxy to see the growth in wagon industry. How do you contrast that to what your wagon revenue is?

Aditya Rao: Titagarh and Texmaco, I have visited both of their plants and I have obviously known both of them, we know them quite well and we are glad that they have got the revenue. I was not aware of that, frankly, because last they were at 20%-30% capacity utilisation but it is an

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amazing thing that they have come back. But there is distinction because they have their business with us or our business with them, with the railway board is on wagons which the railway board orders. Apart from that, they have their own private wagon business for which they manufacture their own components and they have their export business, they have their systems, different kinds of integration that they would make. So, we are having structural wagon structures so that by itself gives us a certain market size with the railway board but they would have other business verticals and they absolutely do have other business verticals which may be scaling up but, yes, from the products that we provide to them, that has not come back at all, frankly, it is in a reasonably bad shape.

Piyush Goel: Understood but tell me one thing let us assume that capex in wagons from the railway board etc., also is down significantly from four five years ago but given that railways witnessing capex in everything else like electrification or laying down new tracks or coaches why do you thing wagons are yet to recover and do you expect that like towards the fag end of this five year plan do you see that coming up or are you not very hopeful?

Aditya Rao: From a market point of view, it looks very good because there is capacity. All the wagon manufacturers, to our belief, as I had mentioned, 20%-30% capacity utilization. So there is tremendous opportunity for them to scale up. Beautiful companies, beautiful assets. On the market side also, the picture is very good, we have a lot of private people who want wagons, want new wagons, there is lot of wagon refurbishment opportunities but sitting in the middle of the railway board and for whatever reason the decision making has not been compliant with new orders being placed. For example, last year was good actually compared to the year before that but as I said we are nowhere near the level which we supposed to be. From a numbers point of view, they promise 13 lakh wagons and a fraction of that actually happens on that ground. So, my feeling, I do not actually know. I will try to give you some of the numbers in terms of why wagons are different from coaches but to our understanding coaches, when we go to meet them, they say we want to expand by 30% - 35% this year, is what we hear from them, ICF or MCF, sometimes more than, that we want to do new things. Wagons we do not hear the same language, so, whether it is the regular wagon manufacturer or the railway board, the number of orders being placed and the order placement process also become very protracted, very long, so, I do not know is that answer. I will ask my Railways business unit head exactly why there is such a big distinction and get back to you but there are a lot of differences in the communication between our customers of wagons and coaches.

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Piyush Goel: Understood, got it. Thank you.

Moderator: Thank you. Our next question is from the line of Pawan Nahar of Religare Capital Market. Please go ahead.

Pawan Nahar: Thank you again. See while this discussion on ROCE was happening I just also wanted to highlight and perhaps you will be a explain depreciation is if I look at last year depreciation is about only 3% of the gross block so I am sure there must be a good reason right, if you want to comment you are comfortable with that, deprecation is a percentage of gross blocks look like very low number?

Aditya Rao: Depreciation is better computed on net, because we have a lot of old assets, assets which are there for long time, which even after deprecation has some value. So if you look at the gross block you may get a number where even 20-30 years ago whatever machines we had bought would still be on there. I think a proper analysis of what deprecation we have, as per company law, whether we do WDV or whether we do straight line, it is about what are the capex been over the last ten years and that is what we are depreciating, so on that the percentage would be there, but I have no doubt on net block basis we must be close to 7% is on net block so that I believe is because some of the assets we have like buildings, obviously, do not depreciate very soon. Some like software assets depreciate much faster, 33% and that is the last year. This year, I think you would have seen an increase as well with the new depreciation mechanisms that are coming in, so PEBS there is an increase and PIL we have seen a reduction in depreciation because of the new treatments which have come in but overall we would still see a 7%, which I think would be the same for all engineering industries.

Pawan Nahar: Okay and there has been no change yet that I can see in the depreciation this year because its standalone flat PEBS is down a bit, I think so there has been no change here on depreciation?

Aditya Rao: I was speaking about the consolidated number because of the solar asset that we have.

Pawan Nahar: So you know actually that earlier question on ROCE see even I actually wanted to raise that what is happening is that when we are doing the ROCE calculation either the numerator is not capturing the bank guarantee or the denominator does not include the bank guarantees so it has actually ROCE looks very high but it has not come down to ROE?

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Aditya Rao: Correct.

Pawan Nahar: That was one and second just out of curiosity wanted to know you all are using some ERP package?

Aditya Rao: For PIL, we run SAP and we are in the process of actually adding CRM, other automation and we will be redoing the implementation completely. This is an implementation we did in about 2008-2009. It does not serve exactly what we need to do. We are using SAP in Pennar industries and Oracle in PEBS. PEBS implementation is much more recent so its robust enough to large but PIL we would need to replace SAP with something else.

Pawan Nahar: Thank you so much.

Moderator: Thank you. We will take a last question from the line of Lokesh Manik he is an individual investor. Please go ahead.

Lokesh Manik: Good morning Aditya. My first question is on the special resolution that was passed a couple of month ago regarding approval for investments loans guarantees for a maximum limit of 815 Crores so I just wanted some color on that in terms of what was this regarding if you can just explain a bit?

Aditya Rao: So, Pennar Industries invests in its subsidiaries. Those are the ones that need approval, general members agreement and also obviously from the board before that. So, we have taken this limit because both PEBS and PIL are growing and PEBS while it does not have any debt it has a lot of non-cash usage especially in LCs and BG owing to its business model as does Pennar Enviro. So all of these are guaranteed by Pennar Industries which are looked at as investments. So as those companies grow, the limits that Pennar Industries takes have to grow as well. In addition to that, as I mentioned we have a solar subsidiary, which also has been financed essentially by Pennar Industries, which will be a good asset to flip. So, once that happens, I think you will have the limits coming down but the only thing that is being guaranteed are the working capital limits of the subsidiaries other the solar asset.

Lokesh Manik: Okay and just a clarification any bank charges on these would be paid by their respective subsidiaries?

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Aditya Rao: Absolutely, there is no working capital cost and interest cost of the subsidiary, which is being paid for by the company.

Lokesh Manik: Coming to the tubes business if you can just give us an idea on the proportion of mix of CDW versus ERW today versus six seven quarters back?

Aditya Rao: CDW is right now at close to 800 to 900 MT as of right now. By the end of this quarter, it would be higher. ERW is about 2000 MT. The same thing, lets say, two years ago would have been 500 MT CDW, may be a little less than that, 450 MT perhaps, and ERW at about 1800-1900 MT.

Lokesh Manik: Okay and in the railways division specifically on the wagons we saw a slump in 2014 and the industry and now we see an orders picking up so I read somewhere that although the orders have started coming in but they are not coming in at the margins like players like Texmaco are expecting so I just wanted to know that and obviously we have also seen an increase in our sales in wagons in the last two years so I just wanted to understand have these come at lower margins as compared to 2011 or pre-2011s?

Aditya Rao: Yes, they have. In 2011 we would have got about 30%. As of right now, it is only about 15%.

Lokesh Manik: Okay and going ahead would you expect it to increase or we would be doing?

Aditya Rao: We have increased. So, the 15% margins on wagons. Coaches are different, coaches have remained high, coaches are still at that margin and we do not see a decline. Wagons, if you were compare it to 2011, it is at a far lower margin level but it was even lower it was 10%-11%, it was a sub 10% for a while as well, primarily because of competition, because they were no orders to go around, so the few people chasing orders, we were, I guess, all undercutting each other but as of two years ago, that has stopped. So, we have taken it from 10% to 12% to 15%. It is actually little higher than 15% right now but overtime you can say it will steady state at around close to 20%. That is what we have.

Lokesh Manik: My question actually was on the back of what I had basically happened it in the transformers industry during the period 2008 to 2012 and if you go back and ask them to see their EBITDA per MT would be back to those levels they are not very confident my question was basically on back of that?

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Aditya Rao: Coaches yes, railways yes, wagons I would hesitate to comment. I do not see a possibility right now of wagons moving back unless we do a lot of product development, get into adding a lot more value than we are right now. I do not see a EBTIDA per MT or let us say EBITDA margins in wagons moving up very substantially. 100-200 basis points, sure, we will work to make that happen, more than that will be difficult.

Lokesh Manik: Okay and in the industrial components business so what would be our outlook for the white goods component division do you see a pick up going ahead?

Aditya Rao: Not really I think. In white goods, we supply to IFB and a variety of other manufacturers. As a business vertical, unless we get into product development with them and get into not just supply of these components, we also get into integration, we also get into subsystems, I do not see that revenues scaling up by a lot. In fact, minus hydraulic, industrial components generally, unless we add a lot more stronger product development and R&D capabilities, it is very difficult to see margin expansion there or even very high revenue expansion, which is a reason why in the last six quarters, if you see, we have not seen doing industrial components doing very much, some growth, sure, but not a lot.

Lokesh Manik: So we would be heavily dependent on the hydraulics business going ahead and we were quite bullish on that?

Aditya Rao: Not white goods, but some automotive systems are something what we are quite keen about.

Lokesh Manik: Okay just coming back to the question asked by a gentleman on the ROCE and ROE difference now if I did see a last three years there has been an increase in the trade payables and subsequently increase in LCs and the bank guarantees, so is there a trade off that your trade payables have increased at the expense of these LCs and the interest cost should be a trade off between having it on the books and off the books?

Aditya Rao: It is exactly what has happened, so we would record the trade payable because we had not paid it as yet and we have to give a LC for it, so bank charges have gone up with that. It is exactly that.

Lokesh Manik: That is all from my side. Thank you Aditya.

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Moderator: Thank you. I now hand the conference back to Ms. Nikhar Jain for closing comments. Over to you Madam!

Nikhar Jain: I would like to thank the management once again. Thank you all.

Moderator: On behalf of Emkay Global Financial Services, this concludes the conference. Thank you for joining us, you may now disconnect your lines.

(This document has been edited for readability)

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