"Pennar Industries Limited
Q1 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Pennar Industries Limited Q1 FY2019 Earnings Conference Call hosted by Ambit Capital. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amandeep Grover from Ambit Capital. Thank you and over to Sir!

Amandeep Grover: Thank you Karuna. Good morning ladies and gentlemen. We welcome you all to the Q1 earnings call of Pennar Industries Limited. We have with us Mr. Aditya Rao, Vice-Chairman and Managing Director, Mr. J Krishan Prasad, Chief Financial Officer, and Mr. Manoj Cherukuri, Head of Corporate Planning of the Company. Now I hand over the call to the management for their opening comments post which we can set the floor open for questions and answers. Thank you and over to you Sir!

Aditya Rao: Thank you to all the stakeholders of Pennar Industries. We thank you for joining us today on the Q1 performance conference call for Pennar Industries and its subsidiary companies. I will start off with a short overview of our performance for the quarter.

For the standalone entity, we had a very good quarter with our net revenue increasing from Rs.300 Crores to Rs.342.1 Crores, our EBITDA growing from Rs.27 Crores to Rs.35.7 Crores and our net profit growing from Rs.6.5 Crores to Rs.11.2 Crores. The consolidated company was markedly flatter with Q1 revenues growing from Rs.429.7 Crores to Rs.466.5 Crores and our EBITDA moderating from Rs.46.3 Crores to Rs.45.6 Crores. On net profit basis, we were at Rs.10.7 Crores to Rs.13.1 Crores primarily due to deferred tax liabilities that got added back, which we will explain in detail over the course of this call. The drop in EBITDA was primarily because of lower performance than expected in our pre-engineered building subsidiary and of course the fact that Pennar Renewables, the another subsidy of the company, which contributed substantial to EBITDA, but not really that much to the profit after tax, that subsidiary was sold off to Greenko. We completed the transaction over the last few quarters and accordingly that company's results are no longer being consolidated in this entity and Pennar Industries currently holds no equity in that company, so that is a rationale.

Other than that, we have had a fantastic quarter on the standalone side with our railways business outperforming with very high growth of almost 90% and our industrial components business vertical also growing at close to 38%. Tubes grew at about 16% year-on-year on a gross sales basis, 14% on a net sales basis and we expect a lot of this growth to be sustainable and even to accelerate over the next few quarters. On Q2 we are very, very bullish, we expect all the divisions in the standalone entity and also in the subsidiary in the consolidated level for us to continue to have high double digit growth and we expect to sustain this over the period of this year to close out a very strong year. So with that being said, I would like to open it up for further questions with reference to the standalone entity and all consolidated entities performance.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera: Good morning Sir. Thanks for the question. Just one question, why did the scrap sales suddenly increase a lot in the standalone division wise performance?

Aditya Rao: We do not measure scrap sales as separate revenue vertical per se. We tend to accumulate scrap and what tends to happen is whenever the price discovery is a little better, we find steel prices move up a little bit and we effect the sale. We have an e-auction process for our scrap. Scrap sales are higher because they are higher I guess.

J Krishan Prasad: Something to do with the need for the product, whatever we are selling here. It is going to be a component for railway business and scrap generation will be somewhat higher because anyway it will be factored into my selling price, so the sale of scrap is something to do with the mix of the product, product mix whatever we are manufacturing.

Sachit Khera: For all sense and purposes, I should just consider it as part of each of these divisions right?

J Krishan Prasad: Correct.

Sachit Khera: Fair enough and regarding the decline in the steel product, I am sorry if you mentioned something I might have missed it?

Aditya Rao: Sorry go ahead. Could you say it again please we had a little bit of disturbance on the line.

Sachit Khera: I see from the presentation that there is a decline in the steel products business so is that because it is an intersegment thing or is that because the volume offtake was just not that high?

Aditya Rao: No the steel products business unit was the one business unit, which we did not have growth in. If you break that up again, so steel products consists of CRSS and CRFS in the solar business. Our solar business fell by 50% during the quarter. I would not attribute that to any general weakness in the market effectively because a lot of developers delayed the decision making because of uncertainty in the panel prices so projects got delayed and got pushed over to Q2. We have a very strong Q2 for solar, so it has come back, but that was the reason it fell. The other business has outperformed, so CRSS especially did quite well and CRFS had good growth as well. If you have to remove solar, then everything we have, every revenue vertical we had in the company grew.

Sachit Khera: The uncertainty regarding the solar do you think it has abated now to a large extent?

Aditya Rao: The way I would put it Sir that solar revenue was strong in Q2 and we expect that to persist in Q3. Now there are policy changes, there has been safeguard duty that has been imposed for example, if there is some change upheaval there, then obviously you would have an impact on developers executing projects, but a good way to think about solar market is what was the solar since we come pretty late in the solar capex process, the good way to think about it would be have solar developers execute a lot of projects. If they execute a lot of projects we get a lot of orders. If they do not and if they push that back a bit, then we tend to not have that revenue, so that is effectively what happened in Q1, but in Q2 I can tell you that solar is extremely strong, stronger than it has ever been for the company.

Sachit Khera: Also there is no risk regarding the solar receivables as well right regarding the projects that you are executing?

Aditya Rao: Throughout the company we have a very efficient process from a risk management point of view of looking at receivables. We are very careful who we extend credit to. We provision less than 0.3% of our revenue as ultimate write off amount, so it is true for solar and true for every business vertical that we have. We will not allow our accounts receivable problem issues to cross that 0.3%.

Sachit Khera: Thank you so much.

Moderator: Thank you. The next question is from the line of Saurabh Mehrotra, an Individual Investor. Please go ahead.

Saurabh Mehrotra: Thank you for taking my call. My first question is regarding this merger. On the face of it, if you look at the merger ratio of 23:10, it seems to be not favourable for the Pennar Industries shareholders and especially in the light of the fact that PBL does not seem to be growing or doing well ever since we announced the merger, so one, what is the thought process of the management behind this merger because I think three years back around three years back you decided to demerge the entity, now after three years you are planning to merge it and it does not seem to be favourable, the merger ratio is absolutely not favourable to the shareholders of Pennar Industries. The second question is, I believe in one of the previous calls, you had clarified that the management would be neutral and they will not vote for or against the merger, so can you please clarify your stand regarding what is the management view on the merger and what is the stand, how would they vote so that is the first question, could you please throw some light on that?

Aditya Rao: Sure. Just to set the basis right, there was no demerger of PEBS. PEBS always has been a subsidiary of Pennar Industries, the only difference that happened was PEBS got listed, that is the only change. There was never a demerger of PEBS.

Saurabh Mehrotra: It was a 100% subsidiary right and now then after that?

Aditya Rao: It was never a 100% subsidiary. It was owned 75%, which went down post IPO event, where there is an expansion of equity so went down to 55%, so that was the change. I am sorry it was not 75%, it was 65% which went down to 55%, my apologies for that. That was the change, but again let me answer the spirit of your question, so first you have a subsidiary, then you list it and then you try to merge it again, clearly lot of conflicting signals being sent there and I would agree with you 100%. Now the only thing I will comment on regarding that is the board wants to explore the possibility of creating a cleaner off structure, that is the logic behind the merger, so this is the process that started while that was started by Independent Directors of the Board. If I were to speak as the management, I would say it is something that will help us create a cleaner structure. If I were to speak on the basis of the promoter basis, yes the promoter if the merger does go through, the promoters will tend to lose substantially because our shareholding in the combined entity will drop by close to 1.5% to 2%; however, as I have said it is not for me to comment on whether it is good or bad this is a decision, it is completely going to be left to the non-promoter shareholders of Pennar Industries and Pennar Engineering Building Systems. If they feel this is a good thing to do, then they will vote that. I would strongly suggest to all stakeholders that they vote their preference. We will support whatever the majority non-promoter majority shareholding whatever they say we will support them, so it is a matter of record who is the large shareholders of Pennar Industries and PEBS are, so we will reiterate that management will of course hold off from either supporting for it or against it as per SEBI rules as well. Whatever the non-promoter majority shareholders wish to do and it has to be both. It has to be the non-promoter shareholders of PIL and of PEBS on that day, it has to be what the majority of them say, we will be happy to go along with. You are right in that there has been a fair amount of mixed signaling that is going on. The last one you mentioned, which is favorability/unfavorability for Pennar Industries Limited. The valuation of this company was run by the independent directors and outside agency was appointed. Typically based on performance, the valuations may or may not shift, but in this case as per the rules, it is frozen ahead of time and a decision is taken. I have obviously had a personal opinion about it, but I do not think it is my place to comment on whether it is fair or not fair. What I would suggest is that it is up to both shareholders to see whether they see value in this merger process. Whether they think it is the right thing to do and if they think it is the right thing to do, then absolutely they should go ahead and support it. If they do not believe it is the right thing for either company or either shareholder of any company, then they should obviously vote with that. That is how I would term it, plus from my point of view, as the management and also as promoters, we would want to support what the other shareholders say. It is their decision to take whether they wish to do this or not.

Saurabh Mehrotra: Thanks. The second question is, I think somewhere last year, you had articulated that you are formulating a five-year plan to grow the company over the next five years to Rs.6000 Crores to Rs.6500 Crores, also you mentioned that you are looking at a compound annual growth rate of 30% in both revenues and profits, so could you throw some more light where do you expect this growth to come on, which are the segments that you are going to expand and do you stand by this guidance and anything else, any further light on this?

Aditya Rao: I think what you articulated remains our strategy. We have put a lot of processes in place, which will ensure that we continue to grow sustainably at a high double digit rate. My internal plan is 30%. What I would like to commit to you is while our plan may be 30%, what we will absolutely try to push and achieve those numbers and I am quite confident we will, but what I would like to tell you that you should take a strong high double digit growth 20% plus for the foreseeable future for the standalone and consolidated entity on a quarterly and yearly basis keeping our interest costs at a certain percentage about 3% of our sales is what we can commit to and what we absolutely believe we will achieve. You take that forward over a few years, obviously you will see us reaching Rs.6000 Crores and going far ahead as well, so our planning for this year for the next year is complete. I am extremely bullish right now in terms of how we will perform in Q2, in Q3, in Q4 and I can safely say Q2 tends to be less than Q1 because of monsoon and other effects. We have a strong Q2 and I am quite confident that we will continue to perform well along the lines of what I had mentioned the 30% growth is what we are targeting, but we will definitely achieve a significant proportion of that, high double digit growth for the foreseeable future is what I would guide you to.

Saurabh Mehrotra: Thank you.

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

Varun Ghia: Sir just two questions. First of all what is the order book status and if you could give it across?

Aditya Rao: Some of our businesses have order books and some of our businesses do not. If you were on the PEBS conference call, our subsidiary's conference call about an hour ago, so PEBS there is Rs.445 Crores to Rs.450 Crores order book right now. Pennar Industries for railways we maintain an order book, but as we do for some of our other business verticals, but I think in order to communicate with you better, it is better for us to not give you an aggregate order book as they have different execution timelines. What I will say to give you colour is that none of our order book businesses are struggling right now in terms of booking orders. Our order books are high for each one of those business verticals. A breakup specifically on railways order book, solar order book, PEB order book, we will not be providing right now.

Varun Ghia: Secondly still there is pressure on the margins in the PEBS because of steel prices currently because of the macroeconomic situation. Turkey and all the commodity prices are coming down, so how do you see the next two quarters should we benefit?

Aditya Rao: Could you say that again Sir you said commodity prices are going down.

Varun Ghia: You are right.

Aditya Rao: Could you say it again please. I did not get the question.

Varun Ghia: Steel prices and stuff are going down in the recent two to three weeks.

Aditya Rao: In the market of Rs.1,500 drop in steel prices yes, but your question is.

Varun Ghia: How do you see the next two quarters our margins should come back to the 10% or 11% level because this quarter the margins were down to 8.99% or something on a consolidated level?

Aditya Rao: The moderation margin has nothing to do with steel prices. In fact, if you were to remove a subsidiary Pennar Renewables, which adds usually Rs.7 Crores of EBITDA, that fell away, so that is the reason you see for EBITDA margin having fallen down, but if you were to remove the one subsidiary, which was obviously is very high percentage EBITDA, 70% EBITDA, our margins across business verticals grew, so I would hesitate to link my margin up. I know we have a different answer for PEBS, but if I were to draw a box around this standalone entity, I am immune to steel prices. My operating cycle is so short that whatever steel price increases, I will pass it on immediately. The one exception to this in the standalone entity is tubes, but we have figured out ways in which we moderate that as well with the quarterly pricing impact. If the steel prices go up or go down, I only feel it three months later for tubes. For the rest of the company it is immediate pass through, so you do not have to worry, so I would suggest that for moderate steel price increases of Rs.1000 to Rs.2000 we will not have a margin impact. We will pass it through. We will make sure that we retain and even grow our margins as an impact, not of steel and raw material prices, but because of scale and because of revenue volume going up. I would deal in both those issues.

Varun Ghia: In this year you should see the margins around 10% level?

Aditya Rao: I will not give you a projection, but I will commit to you that I am going to improve our margins. If you remove our Pennar Renewables impact then our margins impact in Q1 EBITDA margins also grew is what I will guide you through substantially not just in value also the EBITDA margin itself grew.

Varun Ghia: Thank you.

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

Rajat Sethia: One question on the cost side, if you look at our standalone P&L so our employee cost and other costs have increased a lot, so employee cost has increased a lot in this quarter and other cost level is very elevated in the last two quarters?

Aditya Rao: You have an employee benefits cost, which I would not term it as massive increase from Rs.30 Crores it has gone to Rs.38 Crores. Now, typically the reason for employee cost growth is we have been on a reasonably large expansion swing, we have opened our largest factory that we have ever built near Velchal, it is a 100 acre factory and we expect to do much more of this. What I will guide you to is costs such as employee cost and frankly even our finance cost, please look at them as a percentage of our total revenue and please look at that percentage declining over time. Now there will be some quarter-to-quarter impacts where increments are given and some other prior period expenses are taken into this. If we finalize the worker policy for example in this quarter, which is what happened, by about Rs.1.5 Crores.

J Krishan Prasad: This more or less had to do with whatever the capital expansions we were doing earlier that has come into operation full blast during this year, when compared to Q1 of last year, so for the time being you will be having a little bit of jump in the fixed cost, but if you take over a period of one year, it will tend to be less than whatever the percentage you have sourced for the previous year.

Rajat Sethia: Basically we have put up upfront cost for the new capex and once we start generating revenues from those facilities, which other cost will tend to normalize?

J Krishan Prasad: It is nothing to do with the manpower cost. That is on roll, so we are not having habit of capitalizing that one as pre-operative expenses and all. We will be charging up as a management policy.

Aditya Rao: If you look at this is growing at 10% per year every year that is more or less the standard.

Rajat Sethia: Actually while I understand the employee cost just may be more clarity on the other cost, other opex as per the P&L it used to be 15% of our sales, it used to be in that range of 15% to 17%, but last two quarters it is around 20%?

J Krishan Prasad: Again we will reiterate and this is something to do with the mix of the products whatever we are going to manufacture, because we will be having more or less raw material consumption costs and other manufacturing costs. Other manufacturing costs is something related to the fabrication and after profiling whatever we are going to do those costs, so if the product mix is going to be little bit changing, it will also get changed because of something it will reduce from the raw material cost and it will increase other than raw material whatever is going to be the manufacturing cost and others, so it is something to do with the mix of products.

Rajat Sethia: Does that mean that other opex will remain in this range as a percentage of sales?

J Krishan Prasad: Say it again.

Rajat Sethia: Given it is because of the product mix that is there and you are looking to go ahead with in future also, so my question this is because of product mix change, so does that mean that the other opex as a percentage of sales will remain in 20% range going forward?

Aditya Rao: I am not too clear what you mean by other opex in 20%. What I can guide you to is specifically employee benefit costs, you should expect that to remain range bound between 10% to 12%,13% of our revenue quarter-on-quarter. On a year basis, it will be around the 10% range, which is what I would suggest.

Rajat Sethia: I will just clarify. Actually I am looking at this standalone P&L that is one, second, I am looking at the other expenditures given in the P&L, so one expenditure is like employee cost, the other is finance cost, then depreciation and then comes only other expenses put together, one line item is given. I was talking about that cost, which used to be Rs.45 Crores on a quarterly basis, but the last two to three quarters it is around Rs.70 Crores?

Aditya Rao: The breakup of other expenses if you were to look at standalone cost, it is a mix of things. It is some amount of bank charges to also get into it even though because it is not in finance cost. What we will do is we will give you a proper breakup of it, but it is probably something that is a mixture of a variable cost, I would not term it as too much of a fixed cost, but let me look at why that has increased. It has decreased quarter-on-quarter and March to June, but let me look at the breakup and get back to you please.

Rajat Sethia: Sure and on the wagon side, I think there are a lot of wagon orders released or expected to release, what is your expectations from those orders?

Aditya Rao: Could you say that again. There are expectations from.

Rajat Sethia: From the wagon orders, which are expected to release or have already been released?

Aditya Rao: We do not really map wagon orders because they are very intermittent. While we have a strong Q2 wagon revenue book, but coaches we have a remarkable amount of clarity on what is going to happen in this year and in the next year as well. Wagons, if there are orders that are given and there is revenue that is happening on the wagon builder side like Texmaco and others, then we definitely will see a drop down with our own revenue increases, but by its very nature so haphazard, it is so unstructured that there is no way for us to really project same amount of volume. For example two years ago, our wagon revenue was Rs.70 Crores, last year it was Rs.40 Crores, this year it looks to be substantially higher than that, but there is not an outlay policy or these many wagons are going to be given out or they give orders for 3 lakh wagons or 4 lakh wagons, but none of that really, we do not see a substantial amount of that actually becoming revenue, so we are actually in our company do not project wagon revenue at all, so we would be unable to comment on it. On coaches of course we can tell you we expect substantial growth.

Rajat Sethia: What is the net debt on the books?

Aditya Rao: Net debt is what you said?

Rajat Sethia: Yes net.

Aditya Rao: The total debt we have is about rupee debt is about Rs.212 Crores. We also have reserves of about Rs.120 Crores to Rs.130 Crores, so net debt is about Rs.80 to 90 crores. This is inclusive of everything long term, short term and everything all rupee valued.

Rajat Sethia: This is for consolidated or standalone?

Aditya Rao: This is for consolidated.

Rajat Sethia: Consolidated, so consol level we have less than Rs.100 Crores of debt now?

Aditya Rao: Less than Rs.100 Crores of net debt is what I will guide you to yes. The rupee debt that is not inclusive of non cash LCs and BGs. There is no way for us to account for that.

Rajat Sethia: Sure Sir. Thanks.

Moderator: Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.

Dixit Mittal: Sir can you give revenues for Pennar Enviro for Q1?

Aditya Rao: We are not giving divisional breakup of revenue, so especially our subsidiaries. PEBS we listed but Pennar Enviro we are not giving, but it was more or less in line with what it was quarter. We did not see a remarkable drop or a very high rise. It was flattish.

Dixit Mittal: Sir like in Q4 last year, we had seen service income in this segment so that lead to huge jump in the EBITDA margin, so my question was regarding that because it was guided that for the full year that kind of service income can sustain next year as well, so are we maintaining that kind of guidance for this year?

Aditya Rao: I think we should have done a much better job explaining Q4 Pennar Enviro results. We were tied between what we are allowed to say and what we are not allowed to say. What effectively happened as a synopsis that is a one timeframe, we have some orders from some nuclear power corporation and others, which we cannot really talk about that much, so there was revenue recognition that was followed in the previous three years at Pennar Enviro, which our auditors did not allow us to recognize the complete margin because our invoices were not completely accepted by the end customer, in this case NPCIL, so what happened is in Q4 that revenue got recognized and also cash was given out so we got all three years that margin that was no recognized got recognized in that quarter, so that gave a very false picture where we had almost an Rs.8 Crores jump in our profitability in the quarter. We admittedly did not do a very good job explaining it, but it is a one off. You are not going to see that happen in this year. We are pretty much going to see what happened Pennar in the previous years with a reasonable double digit growth rate is what I would guide you to, that is what is you are going to see in this financial year.

Dixit Mittal: Sir renewable business you gave Rs.7 Crores figure on EBITDA level, so what was on the topline and PBT level last year?

Aditya Rao: Effectively the revenue last year for Pennar Renewables what we recognized, so we sold in Q4, so Q4 itself we stopped consolidating, but what we had net sales

Q1 last year was Rs.7.8 Crores and EBITDA is Rs.7.4 Crores because there is no other expense per se, except for a small maintenance charges, which leads to an EBITDA of 94%, so PAT of course was not very material because of the heavy interest cost because it is an asset. It's a revenue generating annuity revenue generating asset, so Rs.2.2 Crores was the PAT, so that has dropped away now. The Rs.2.2 Crores in PAT has dropped away and the EBITDA Rs.7.4 Crores has dropped away from this quarter.

Dixit Mittal: Sir lastly just to go back to this Q4 part so what was the one time income you mentioned, Rs.8 Crores right that is on EBITDA?

Aditya Rao: PBT of Rs.8 Crores.

Dixit Mittal: On EBITDA level Sir?

Aditya Rao: I will get back to you on that number. I do not have it right now with me, but we will get back to you on that. Please do remind that was a one off. The explanation we have provided for you basically in as much depth as we can get into because some of these contracts are not even supposed to reveal that we have these contracts. A margin, which was not recognized in the previous three years, was recognized now because of the recognition of invoices, that is the reason and we will give you the breakup and we will put it up so that all the investors have access to it.

Dixit Mittal: Thank you Sir.

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

Vaibhav Gogate: For the consolidated entity you have reported two segments, one is diversified engineering and the other is custom design buildings and auxiliaries, so could you help me understand what all sub segments are included here?

Aditya Rao: This includes custom design buildings are PEBS and Pennar Enviro and the other vertical is PIL.

Vaibhav Gogate: Auxiliaries is what?

Aditya Rao: Sorry could you repeat that question.

Vaibhav Gogate: What is included in the auxiliaries segment?

Aditya Rao: What we just said that is PEBS and Enviro.

Vaibhav Gogate: In which segment have you included the sale of scrap?

Aditya Rao: Sale of scrap is done on a company basis so the subsidiaries would have their own sale of scrap and Pennar Industries standalone will have its own scale of scrap. We do not allocate, we should, but we do not allocate scrap to business units within company.

Moderator: Vaibhav Gogate you are done with your question?

Vaibhav Gogate: Thank you.

Moderator: Thank you. The next question is from the line of Pankit Shah, an Individual Investor. Please go ahead.

Pankit Shah: Good morning. Actually sorry to repeat it, but even my question is regarding wagons. Recently, Piyush Goyal has mentioned that we are facing a shortage of wagons and we will be requiring around 1 lakh wagons over the next five years, they recently gave out orders also for like 22,000 wagons, so what is your take on that?

Aditya Rao: By the time it becomes revenue for us we will be in Q4 if it comes through. That is pretty much only thing we can say, but as I had reiterated I am not very bullish or bearish for that matter on wagons we do not have a lot of clarity, so when it comes it comes. Coaches on the other hand we have steady state revenue growth, we have capex plans for the next few years finalized, so wagons if there is offtake from the wagon builders, we definitely will get orders on that.

Pankit Shah: As of now you are not receiving orders for wagons?

Aditya Rao: We would not say that. We have a good wagon revenue base in Q2, higher than it was two years ago, but for example it is Rs.70 Crores about two years ago in wagons, which was good, but we have gone as high as Rs.400 Crores five to six years ago, so it is very, very volatile, it is impossible to predict the reliability and clarity that we have in our coach business, metro business, and BML. We do not have that in wagons. It is too haphazard, it takes decision making, and it takes a long time. Definitely there is a huge demand supply gap there. Everyone wants wagons. Wagons could turn out to be a fantastic opportunity for us, but in the last few years it has been very, very volatile. As you will see if you look at our wagon revenue it has been all over the place, Rs.200 Crores, Rs.70 Crores, Rs.40 Crores, and Rs.120 Crores. These are all numbers, which have been shown in the last four years, so it goes up, goes down, goes up and goes down, so we cannot comment really.

Pankit Shah: Even my other question was regarding the order book. I got that you cannot disclose the exact numbers, but if you can guide us how much was the growth in order book as in percentage terms or something?

Aditya Rao: Our order books for our coach business are now full for the next two years. We are adding new products and new verticals specifically relating to interior modular frames and also bogies, so that will allow us to further increase our addressable market and our revenue base, which will result in further order book size, but our order book is higher than it has ever been in coaches.

Pankit Shah: Your full capacity?

Aditya Rao: Yes. We are adding capacity as quickly as we can in order to cater to our coach business. In Q1 we had 90% growth in our coach revenue.

Pankit Shah: Thank you.

Moderator: Thank you. The next question is from the line of Ranjit Kothari, an Individual Investor. Please go ahead.

Ranjit Kothari: Good morning. Can I get the segment wise margins also? You have given revenues in the IP can we get margins, which we used to give historically?

Aditya Rao: Anything, which we have not given you segment wise we would hesitate to give you, so we will hold off on that please, but I think what I can say we used to give it out before, so there is not a very massive change from those from an operating margin point of view, so you can continue with those. The market has not substantially changed and I apologize for this. We would like to give you this clarity, but one of the challenges we face is anyone understanding Pennar because we believe it to be, I do not know if you would agree. We believe it to be a reasonably complex entity. We have 44 revenue verticals, each packaged into four standalone entities and two subsidiaries now the third one we have sold, so it will be a challenge for us to communicate how each one of these verticals is moving and each one has its own market, each one has its own sales presence. Now while we have an effective way of planning for each one of them and ensuring that each one remains a growth vertical for us to be able to communicate that to you in terms of revenues, this much margins, this much profit, this much ROCs, this much capital employed, this much growth rate, this much capex, is a little bit of a challenge. In the limited time we usually have to give you all of this information, so what I suggest is bear with us for a few quarters. We are trying to recast the saving, recast this revenue streams into a few different verticals, different from the structure you have seen before so it is easier for us to explain. To give you an idea, we will be demarking them into high EBITDA and low EBITDA. We will be doing it on the basis of EBITDA and ROCE. I think that makes it much easier for us to give you an idea of what is going on because otherwise you have these quarterly swings, you have these specifically we will have to take about margins, vertical wise and it is difficult for us to go through and explain all of this, so please do bear with us. We will not be giving you margins, but if you go back on the previous conference calls prior data, there is a fair amount of data on that. I can definitely tell you there is no massive change in any of those. Our margins and the market remain what they were. What we can commit to is to giving you a lot more clarity in the next few quarters as we finalize the attribution matrix we have for each of these. We will give you a clean structure, which is much easier to understand. We will divide into the high ROC and lower ROC businesses and it will be far easier for us to communicate and have you understand this business because right now it is just I think all I succeed is doing is giving you an incomplete picture.

Ranjit Kothari: Secondly, on railways you have been very bullish on the coaches' side. Can you just give some numbers also in terms of growth apart from saying you expect very good growth, can you quantify some of those numbers in terms of growth?

Aditya Rao: Let me do this. Last year our gross sales in revenue in our vertical were Rs.231 Crores for the gross sales. This year we will definitely cross Rs.350 Crores, let me put that way.

Ranjit Kothari: This is also linked to metro coaches or is it more like conventional?

Aditya Rao: We have supplies to BML and other coaches. For Bombardier and others, we are in the product development phase right now, but metro will be very important revenue vertical for us going forward. We will give you more on that once we are able to finish this attribution, but as of right now, we are working on metro as well.

Ranjit Kothari: Also we were talking about entering into some of the defence products is it correct?

Aditya Rao: It is accurate and again just for the challenge is because we have started generating revenue on that. We have been certified with everyone Bharat Dynamics, with DRDL and with others as well. We have won orders. We have revenue as well, but please give us some time to come back to you on this vertical. It would be wrong of me to just give you numbers right now and guidances right now on this. It is a vertical where we are generating revenue. For it to become a full fledged business unit when I can tell you this is the revenue, this is profit, this is the capital employed, this is ROC, and this is our growth plan. Please give us some time on it, but we are very excited about the defence business. Defence and aerospace will be the business vertical and we will give you more on that very soon, but from a vision strategy point of view, five years from now we think this will be a very crucial part of our business.

Ranjit Kothari: That is very heartening to know that we are so positive; however, can you in this light what we see is that clearly market is not appreciating the kind of performance that we have been delivering and the kind of valuations, which we have been getting, so is there any plan from the promoter side to buy stake increase or do a buyback or something of that sort, which can because the company has such trades at very cheap valuation, so how does the promoter think about this aspect, anyways our holding is significantly low below 40%, so can you give some colour on your thought process around that?

Aditya Rao: I will have to be a little careful in terms of what I communicate on this, so let me put it this way. I agree with you, I think we have a PE multiple of around 6 right now, which is that very poor companies, companies with poor corporate governance or very poor track records get 6 PE multiple, so clearly there is a problem there, I agree with you 100%. I do not think the major problem is performance, we may have underperformed in one of our subsidiaries, but overall on the consolidated basis I think it is over the last two, three years certainly there has been a record of growth, I think EPS growth has been there, but PE multiple has fallen down because perhaps we are not communicating adequately well, we are not able to do a good job as far as getting people interested in us. Now with the merger process underway, no further corporate action can take place until that is complete, so this is something that a buyback or any other corporate action can only be looked at after anything that changes corporate structure can only be looked at after a decision on the merger is taken, yes or no, so we will have more for you on this in the next few quarters, but definitely on the next conference call that we have I definitely please hold me accountable to give you more clarity on this, but as of right now as per SEBI rules, I cannot even tell you that we are discussing about that or we are not discussing about that, so I apologize for that, but that is what I have been told. Now I will say however, we are sitting on a fair amount of cash and all options for the company's board are available once the merger is complete, we can discuss a lot of them and we will shed more light on this when the time comes. As far as promoters are concerned, the effect of a merger if it is approved is a further decline in our shareholding from around 40% to 38%, 0.x%, so what we would love to do obviously is to make a statement of intent, but again we will come with that, we will discuss that only post the merger. For now until the merger process decision is taken, I think I have been advised to stay away from commenting, but I agree with you completely that I am accountable for the share price in the market cap and I have done a very poor job obviously taken care of the market cap. I think on performance I think the team has delivered good performance overall, but certainly it is a matter of concern for us I will definitely say. Let us go through the steps we need to take and discuss this over the next few months and see what can be done, but I definitely can promise you that the performance of the consolidate and standalone entities will continue to do well. We will fix the problems we are having in one of our subsidiaries in particular, but other than that the standalone entity per se as I said at the beginning of the call, I am very, very bullish, you should expect a very strong Q2 from us, you should expect a very strong financial year from us and we will continue that and we keep doing well, performance will catch up, we will also work on our governance and our compliance with everything as well.

Ranjit Kothari: Thanks for that, one question on the industrial component side, this is one of the newer segments, which was not doing very well until say last three, four quarters where we have started showing growth figures and even the market looks very interesting this industrial – within that hydraulic I think where there are not many players, so can you just throw some light on developments, which have happened and the reason why we have been showing good growth and throw some more light in what kind of breakthroughs have been done in this business in terms of winning say more customers, more product segments something around that if you can discuss?

Aditya Rao: Sure I can definitely speak to that, our industrial components consist of white goods, automotive and hydraulic sales, all three are doing quite well, hydraulics especially as you mentioned is a very exciting sector for us, we think there is tremendous growth potential there, the market leader is Rs.1000 Crores and this year with aggressive growth we are going to close it out at double digit Crores, so we have hired to work, increasing capacity for that, new Chennai plant we are building a whole new just for hydraulics, we have added several new customers in the US in this vertical. It is a point of focus area for us from our business unit head for industrial component, Shiva is extremely bullish, in fact we rate all of our views and we rate them on a monthly basis and he had the highest rating in the last couple of months and all of last year. Accordingly he was rewarded quite heavily as well. We believe that he will continue his performance and he is very bullish, so that percentage growth that you see the 30% you will see no slackening of that, you will see us continue to perform well and industrial components will be one of the best business units we have this year from a performance in revenue and operating profit point of view.

Ranjit Kothari: My question was actually the reason behind this, so what exactly have we done and is it export driven or is it domestic market, new customer, so something around that, on the ground levels some details?

Aditya Rao: Both of that, our export revenue has jumped massively as well, I think domestic also has scaled up, but if you were to look at attribution. Probably the growth that you see of 70% of that is because of export business and we expect that for both the US and Europe and we expect that to continue.

Ranjit Kothari: Understood and have we entered the full packaged unit of hydraulics or else we are still only doing the cylinder part?

Aditya Rao: Excellent question, right now we are just doing the cylinders, but it is imminent for us to enter the other aspects of it. The systems integration part includes walls, screens, motors, pumps, all of those, yes so once we enter that then we can easily 10x what we are doing right now, easily.

Ranjit Kothari: This Patancheru plant, which we have I think shifted this to a new plant right, all the facilities or is it still working Patancheru plant?

Aditya Rao: Patancheru is still working, but it has gone from being number one to number two to number three now, so the largest plant would be Isnapur plant. Second would be between Velchal and Chennai, now Patancheru will continue to get lower and lower, so we will just decongest it and get revenue out of there push into other plants, get newer plants, we plan to open three new plants in this financial year and we are quite excited about how well each of them can do, so as this happens, that natural decongestion will make Patancheru less and less important and finally we can obviously take any decision that needs to be taken on that plant..

Ranjit Kothari: Thank you. All the best.

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

Manish Bhandari: Good afternoon. Two questions, one that if you can define the products what you are trying to make in defence and aero and how that synergizes with your main business?

Aditya Rao: At this point Manish I will not, but let me make it a broad, it is structural elements, structural elements in the defence industry, I think, I really cannot say more than that we have NDAs for each of these orders whatever we have won.

Manish Bhandari: Do you think it could be a triple digit business in next two years or we would be hitting to that level?

Aditya Rao: I believe the potential is very vast. Right now please do excuse me, the numbers I will not, but very soon I will, definitely next couple of quarters we will come to you with revenues specifically for the defence and aerospace business, we are building a separate plant for this as well, so we will come back to you, but give us those quarters, it is too nascent right now for us to make your commitment on this, but we have started of.

Manish Bhandari: Not a problem, my second question was regarding this I am not a shareholder of PEBS and now I as a Pennar Industry shareholder I become a shareholder of PEBS also, if you can explain me what is the problem with PEBS business and how you plan to turn this around, it has been quite some time since the numbers and the EBITDA and the sales has been sagging for this part of the business?

Aditya Rao: Some answers are stupid, so I guess the problem has been I think we have not really been able to give it the focus it deserves, which we are now doing, I think whether a merger happens or does not happen, I am quite confident that we will bring PEBS back to growth and that starts right now, we are putting processes in place, one way to grow revenue as to increase the capacity utilization, another way is to increase your addressable market plus increasing your revenue, we are doing both. The elements in PEBS, which are doing well, I mean solar business in PEBS grew by close to 100% last year. Our engineering services business grew by close to 60%, 70% and that growth is continuing into this year as well. So we will continue to make these investments, the new structural fabrication plant that has been set up can substantially increase revenue, but the key part of this is that not so much revenue base I think we should look at improving EBITDA and bottomline and PEBS and we have a project to do that, I think we waited while we buildup certain capabilities which will allow us to do this I think, what we have done at PIL can absolutely be replicated at PEBS. We have fantastic team there, we have good capabilities. I think allow us to come back to you with a PEBS plant, but very soon you are going to see improvements, I do not think you are going to see this three state, four state quarters of decline that is going to break very soon, we will make sure that happens.

Manish Bhandari: Yes I am a bit confused that while the problem is with the managerial capability whom we have hired and have you made any management change or is it a focus of the board or is it a focus of yourself and other executive management team, where does the problem lie and how do you address that?

Aditya Rao: I think it is a combination of issues, I would not necessarily term it as management inattention or management lack of capability, I think there is some decision that needed to be made in terms of how we looked at it, do we focus on building materials that we focus and do we focus on the addressable market increases the growth, do we look at structural engineering, do we only look at PEB, you know, there were several things, which we banded about. An important part to look at it is PEB is going to be a division of Pennar Industries or is it going to have its own life as a company, so these are things, it is a separate set of shareholders, separate board, so these are questions we have to answer, I know it is not the answer that you want, but only one thing, the market itself has not done that well, no PEB company has grown, if you look at in that sense, I mean, there is no PEB company in India, which has grown in the last three years, but we have from a revenue point of view. We have not been able to translate that into strong cohesive EBITDA and bottomline improvements, but that is primarily owing to our own focus areas in terms of using our capacities and capabilities in getting into adjacencies, getting into other businesses, sometime we have seen diversifications, so this is something we will figure out now is what I am trying to tell you and our intent will be to get it to a growth path, there is no reason to be very, very conservative as far as the PEBS also is concerned, the share price obviously is a disaster I am making no excuse for that, but look at it is a debt free company, it has a good management team, it is continuing to increase revenue, there are new offshoots which are coming up in terms of capacity expansions, which are self funded by the company, there is no term debt at all in that company. We have made the investments we need for long-term growth, we have positioned it well for being present in the building material space, so yes performance has been a downer. Let us not call it management inattention or management nonperformance, let us say that there is some decision that needs to be made for us to determine what is the addressable market future for PEBS, revenue generating asset base is concerned, we have made those decisions, over the next few quarters I am confident you will see improvement. This non-performance historical thing it has happened we will definitely be able to reverse it to a very great extent.

Manish Bhandari: Over the period you also spoken about possibility of liquidation of the Patancheru plant, so is that on the cards and if you could get us something?

Aditya Rao: Frankly, that part where I am holding back on the defence thing too because these are things that will happen Manish, obviously there is a timeline that we would like to see it happen and I would love to see it happen immediately because it is a good asset and its cash flows that comes into the company, which we can deploy into further good ROCE businesses, but the fact of the matter is these things take their own time, it is industrial infrastructure in our name, but conversion of that, transplanting our existing activities into others, we are picking operations on that plant, which need to be transferred or which we need a fluent pollution control licenses, permissions, which are not really been given out, so we have to look at it as a before and after situation, it will happen, but since at this point I am not able to commit to a timeline on it, what we can do is a gradual process where the board has not taken it up and they made another independent director responsible for this, I think that is the smart thing to do for them to go ahead and the smartest thing for us to do is to decongest, sell the land and get the cash flow into the company and deploy that into growth assets, I think the board will discuss that and get you more detail, more colour on this, but as I said I am unable to commit a timeline to you right now, so it is a complex issue, it is a complex task, it will happen, when will it happen that something that we need to spend a little time.

Manish Bhandari: My last question is regarding the coaches business and your optimism on that, if you could tell me what products you are doing in the coaches business and you are getting this business directly from the railways or from the ICF?

Aditya Rao: We get them from ICF, MCF, other vendors to ICF, MCF as well, primarily the product categorization can be end walls, side walls, roof assemblies, under frame assemblies, bogie frames, railway interior products and stainless steel products for the tube, so structural elements of a coach is what we would. There has been a lot of press on Train-18 for example, which is the newest train, a very modern train the coach has been brought out by ICF and the railway board and we are in integral part of developing that, I think it is a beautiful coach, very modern, reconnected and the product developmental cycle of that is something we have been part of. We are also now working on design work for them, product development design work for them, we just won an order from them or we are L1 for an order from them and we expect it to close soon, this is design work and product development as well, so we will get the entire supply chain, you design a product then we manufacture it then you get locked into the supply chain and also lessons why at some point that product gets outdated then we redesign it, so that is the idea we have with ICF, but largely right now revenue for a railway coach business is structural components and subsystems to be integrated into a railway coach.

Manish Bhandari: Obviously it should be in a high margin business and this TV18 project has already started and you will see a significant long ramp up cycle for next three, four years on this TV18 project?

Aditya Rao: Absolutely right now the majority of coaches are LHB, Linke Hofmann Busch coaches that is going to be indigenous for Train 18 and I think it is a beautiful opportunity, so ICF, MCF all the coach factories have good plans to encourage this and if you have seen the pictures of Train 18, I think it is a very good product and it has good potential.

Manish Bhandari: Thank you.

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

Vaibhav Gogate: What percentage of your revenues comes from exports and how has this changed over the years?

Aditya Rao: It has been increasing very well over the past one year, so Pennar Global now handles our export business, it is a subsidiary of Pennar Industries and I think our CEO for that vertical Eric Brown is very bullish about this business. We will definitely have very high growth in our export business in this financial year, already you are seeing growth in excess of 60%.

Vaibhav Gogate: And what percentage of total revenues is coming from exports currently?

Aditya Rao: This year you should expect close to 10% of our revenue coming from export and this proportion will increase.

Vaibhav Gogate: Mostly USD right?

Aditya Rao: Mostly USD yes, USD and mostly US, the dollar denominated and also the end customer is in US.

Vaibhav Gogate: 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. In terms of this merger of PEBS and Pennar, so what is the timeline, when is the outcome of the porting and basically by when we will have a clarity on that sense?

Aditya Rao: Yes we have dates. What I will do is guide you to it, we have received approval from the exchanges, we have received approval from SEBI, we have received NOCs from all of our bankers except one which is imminent, we believe it to be received, going to be received soon in the next few days to a week or so and then we will then go and file with NCLT and have the EGM. We expect the entire process to be done in the next month, month-and-a-half is what we project, but allow us to come back to you, that is our expectation and we are quite confident it should be done in that timeframe.

Subhankar Ojha: The next process you are saying the NCLT filing right?

Aditya Rao: Could you say that again?

Subhankar Ojha: What is the next process of the merger, I missed out the last sentence that you said?

Aditya Rao: Filing with NCLT, holding EGMs then after that it is a lot of other, basically grant process, which is going to take it through to the end, but these are the major events, NCLT has to give approval and permission and EGMs, the stakeholders of both companies have to approve this merger.

Subhankar Ojha: So that will take another probably six months?

Aditya Rao: No, that will take may be a month or two months maximum.

Subhankar Ojha: Two months maximum?

Aditya Rao: Well it is not for me to say, it is for the NCLT shareholders to say, but I am pretty sure you can expect the decision before we speak again on an investor conference call.

Subhankar Ojha: Sure. Thank you Sir.

Moderator: Thank you. The next question is from the line of Rohit Gupta an Individual Investor. Please go ahead.

Rohit Gupta: All my questions have been answered. Thanks.

Moderator: Thank you. The next question is from the line of Ranjit Kothari, an Individual Investor. Please go ahead.

Ranjit Kothari: My question is on this time is on accounting, in the PEBS results in previous quarter we had seen that there was readjustment of the equity from Rs.236 Crores to around Rs.171 Crores for PEBS, so almost a drop of say Rs.66 Crores odd, which was because of change in accounting from I think GAAP to Ind-AS, so the major element was the adjustment on revenue recognition from supply basis to percentage of completion basis under IGAAP, which was around Rs.52 Crores of adjustment was on that account and Rs.24 Crores was on account of increasing provisions for bad debts under ECL model, so what does it mean, were we accounting for revenues before actual delivery of the service, can you just help us understand this part in a better way?

Aditya Rao: So there is two things you mentioned, one is the ECL process expected credit loss method for which you are recasting receivables and the other is revenue recognition, so we also had a major change in our auditors at both companies we switched big fours in PEBS and in PIL we went from the old auditor to Deloitte, so I pretty much have to do what they tell me to do and they are remarkably tough as auditors, so what they have told us is our revenue recognition model previously was inaccurate, so in fact even for the quarter currently in question, they have chopped off a substantial amount of revenue because they said that they may not believe it is something that we can account as revenue, to give an example some of shipments even though we invoice them after we shipped from a factory because it did not get onto the ship they told us to remove that revenue, so these changes hit last quarter Q4, relevant for the whole year and that is sign off for the whole year, so it was Ind-AS adjustment resulted in them being quite aggressive in making these adjustments, so revenue recognition has resulted and that amount of revenue, which is specifically speaking the changes came and because they were shifted from a factory, but not received by our customers, they are shipped by our factory, but they were not accounted for by our customers or they were shipped by our factory and did not get on to the BLO was not done, so those are the three categories, now that resulted in a few days of revenue getting chopped off as it has happened in this quarter as well, but that is the decision they have taken. As far as the ECL is concerned, those are normal provisioning things, we had a provisioning method, they did not like that, so anything over a certain period they wanted us to provision using expected credit loss on that and also they were making a statement on the collectability, they felt something was not collectable and this is I would not pretend as a very objective decision that is what I have decided, but my auditors have to listen to them, so that is the reason, but good news is that is a cumulative assessment that we changed to Ind-AS, I do not think we are going to see massive adjustments or you will definitely not see massive adjustments every quarter or anything like that, this is something that we have to do to in order to get compliant with what they wanted us to - how they wanted us to do revenue recognition and provisioning.

Ranjit Kothari: So going forward, do you believe that the historical margins, which you are reporting in the PEBS business, do you believe that going forward that is not relevant and we should expect much lower margins in steady state also in this business PEBS, meaning our historical numbers relevant now?

Aditya Rao: Not at all, there is no demon in PEBS, I know it has been ravaged right now and the numbers look horrible, but if you look at the basic thing, the equation is pretty simple, we expect 20% on operating margin, a fixed cost in PEBS is about 9%, which gives you an EBITDA of about 10% that has been the math always. What has happened in the last few quarters is because the raw material prices correction and because of fixed price contracts, a 20% is fallen to 17%, 18% on that nature and because the revenue base also declined a little bit in Q1, it was a hammer blow basically, so our EBITDA fell to 6% or 7% or something like that, remove your interest cost out of that, remove depreciation out of that and remove taxation out of that, ultimately you are left with a very, very small number basically, it is effectively a payback number basically breakeven kind of number almost little better than that, that number basically if you look at this where is the problem here, the problem here is only in scale, nothing else is a problem, so if we increase our revenue we are fine again, can we increase our revenue, we believe so, it is all a question of scale, scale also has impact of reducing your fixed cost of the percentage of revenue and of course raw material price impact you have to provision, so it is a good place right now I would say in terms of being able to grow, I think the worst is over, I do not think you should look at PEBS margin continuing to be bad for the foreseeable future, that is not what is going to happen, but let us prove it now instead of us, instead of me just talking, let us please look at what is happening in the quarters and please do form an opinion based on that, but my job is to tell you what the truth is and the truth is not that we are going to have protracted diminishing margins or no growth in PEBS that is definitely not.

Ranjit Kothari: I think we all were expecting that with the onset of GST and general consolidation among e-commerce companies and even all the other companies who consolidate their supply chain we were expecting huge benefits to approve for someone like PEBS; however, nothing of that sort has happened, so can you tell us what is the missing link here?

Aditya Rao: You are right, it has not happened except in one frame where you can see which is an order book and I think we did give out our order book, which is now our order book is higher than it has ever been and the margin we have on their order book is also as per our historical expectations, so I would guide you to that resulting in growth. Please give us time, you have been very patient on PEBS, please give us little more time, give us this financial year we will come through, we will show growth, but the take off from e-commerce, warehousing all of that is true, it is happening, warehousing orders are quite strong and other orders also are quite strong, industrial activity is picking up, so what you see happening at PIL, you will see happening at PEBS, so it will take a little more time, that is what I would guide you to, but yes it has taken us a while to turn the ship around yes.

Ranjit Kothari: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Amandeep Grover for his closing comments. Over to you Sir!

Amandeep Grover: Thank you Mr. Aditya, Mr. J Krishna Prasad and Mr. Manoj for taking out their time and answering everyone's questions so patiently. On behalf of Ambit Capital, I wish you all the very best for the remaining of the year and thank you everyone for joining the call. I now hand over the call to the management for their closing comments. Over to you Sir!

Aditya Rao: Thank you. Look forward to speaking with you further over the next few months and we are hard at work to grow the company. Thanks for all the stakeholders for your support.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Ambit Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

(The Document has been edited for readable purposes)