"Pennar Industries Limited Q1 FY2018 Results Conference Call"

August 16, 2017

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MODERATOR: **MS. NIKHAR JAIN - EMKAY GLOBAL FINANCIAL SERVICES - EMKAY GLOBAL**

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY2018 results call of Pennar Industries 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 after the presentation concludes. 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 would now like to hand the conference over to Nikhar Jain of Emkay Global. Thank you and over to you Madam!

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 to Mr. Rao for his opening remarks. Over to you Sir!

Aditya Rao: Thank you. Welcome to all the stakeholders of Pennar Industries with the Q1 investor conference call. I am joined by Mr. Krishna Prasad, our CFO and by Manoj, who heads our Corporate Planning Division. The format for this call would be for us to first provide brief on the company's performance for the quarter including any cost reduction, which would have happened and post which we will hand over to the moderator for any questions.

In terms of the performance of the company for the quarter, we had a good quarter. We had an increase in our net revenue from Rs.308 Crores to Rs.430 Crores; an increase of almost 40%. Our EBITDA increased also by 21% from Rs.38.2 Crores to Rs.46.3 Crores and the net profit increased 38% from 7.8 to 10.7 Crores. Cash profit increase from Rs.16.7 Crores to Rs.21 Crores.

For the standalone entity as well, we had very high levels of growth with our standalone gross revenue increasing from Rs.233 Crores to Rs.321.2 Crores. Our net revenue increasing from Rs.212.9 to Rs.300 Crores, which was an increase of 41%, EBITDA increased from Rs.18.8 Crores to Rs.27 Crores, an increase of 43.6% and the net profit increased to Rs.6.5 Crores from Rs.4.3 Crores, which is an increase of approximately 52%.

On segmental performance, our growth was led by Systems and Project business, which grew by over at 106.5% from Rs.68 to 140 Crores typically this business is one of the higher margin business verticals as well so that also has resulted in an increase in our profit.

Industrial component grew 17.6% from Rs.14.6 Crores to Rs.17.2 Crores. The EBITDA grew even faster from 2.2 to 2.7, which is year-on-year growth of 21.5% for this division. Our Tubes business vertical also had very growth from Rs.40 Crores approximately Q1 last year, we grew to Rs.54.9 Crores, growth of 37.7% and even our EBITDA grew from 3.2% to 4.6%, which is the growth of 40%.

The Steel Products business unit primarily owing to continue steel price volatility did not see a substantial increase in fact revenues are relatively flattish from Rs.81.9 Crores to Rs.79.7 Crores and the EBITDA too as a result of input raw material cost increases did degrew from Rs.3.6 Crores to Rs.3.2 Crores.

Our business vertical wise performance railways continue to do well. We continue to expect an expansion in order book, a pretty large expansion as well over the next few months and as we add for new product and new stainless steel line comes on line as well we expect to grew addressable market as far as railway is concerned significantly over the course for the next quarter and two quarters.

Solar continues to do well. We have very large capacities that have been built up over the last couple of quarters and they came online in the last quarter, which has resulted in the dramatic increase. We see this continuing. We see Q2 being a very strong quarter for the solar as well as Q3 and Q4 tend to be the best quarters as far as solar market is concerned so we quite bullish on the segment as well.

Tubes have expanded capacity in the last quarter by expanding ERW. We are in the process of increasing ERW capacity as well and we are quite confident that with the new GP line that we have added even GP tubes become an opportunity and addressable market vertical for us and we expect to have all three of these contribute to a substantial increase in our revenue for the tubes business over the next few quarters.

Industrial components have come back to double-digit growth after a long period of relatively lower growth and we are quite confident this year that with our increase in hydraulic sales and also increasing export revenue we should be able to grow this vertical quite well.

Our steel products business unit will be better by the addition as I mentioned of our galvanizing line and we will also be hosting Hot-dip galvanizing revenue in this business vertical. The combination of that should give us a larger addressable market and but we will maintain discipline and margins. We will maintain discipline on ensuring that this spread is maintained and thus Q1 is strong and we expect the trend to continue in the next few quarters. With that I would like to hand it over to the moderator for any questions in that.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. A first question is from the line of Abhishek Agrawal from of Moneyore Capital Advisory. Please go ahead.

Abhishek Agrawal: Sir, congratulations on a good set of number. Sir my first question on margin front though we have seen a significant growth in revenue, but margin has declined. It is understood that it is due to raw material price so will we be able to pass on raw material price increase in subsequent quarters and by when and what is our outlook on raw material price and full year EBITDA margin and revenue growth?

Aditya Rao: Thank you for that question. Margin specifically let me finish it out. So firstly we have not degrown in margins, we have actually increased in margins. FY2017 Q1 margins for the standalone entity was 8.8% and FY2018 was 9% so if you are seeing on a standalone basis we have increased our margins and you are right that this consistent raw material price escalations and volatility can affect our margins and that is something we are very cognizant of. Some businesses will find it little difficult to pass on price quickly such as tubes, such as CRSS; we are trying to put in place measures so that we address that in a way by quarterly rate contracts. Two of verticals have already entered into quarterly rate contracts with major steel providers so that helps us relieve some of the volatility in that. But overall standalone our margins have increased from 8.8% to 9% so we will continue to monitor margins.

Abhishek Agrawal: Sir what is our outlook for full year EBITDA margin revenue growth with a strong growth in revenue in the quarter?

Aditya Rao: We will not be providing guidance per se but what we have instead given indicative targets for ourselves and as we said on a short-term, medium-term picture what we are targeting is 10% plus on a consolidated basis, which we have already achieved I think consolidated EBITDA was 10.8% so we will continue to have that as a target and any revenue we had, we will add higher than 10% so we believe you will continue to see consistent margin free up.

Abhishek Agrawal: Sir actually why I asked this question because we have grown significantly in the revenue side that 35% around so I thought there will be some operating leverage, which will enhance our EBITDA margin may be this quarter will not be able to pass on raw material price so we could not get the entire EBITDA margin, but subsequent quarter will get better EBITDA margin and full year EBITDA margin will be more than 10%-11%?

Aditya Rao: Are you talking about consolidated?

Abhishek Agrawal: Yes consolidated one year.

Aditya Rao: I just want to again reiterate a little bit on the EBITDA margin. From the standalone business our revenues grew by 40%, our EBITDA grew by 43.6%, which is our EBITDA grew faster than revenue. Now they grew 10% faster approximately. Now for the consolidated business, the revenues grew at 39.2%, but our EBITDA grew by only 21%, this is primarily because of some underperformance we had in our PEBS vertical so that is something at we will address over the next few quarters. I think we are going through some market volatility there from a price point of view and typically PEBS takes two quarters of operating cycles for us completely being able to pass through some margin pressure. For example yesterday price increased by Rs.3000 we will continue to be subject to volatility that is a biggest risk, but if you were to look at this on a medium term perspective by medium I mean one year, one-and-a-half year to two year perspective, I do not think you have to worry about margins. We focus on margin. Margins are much more important to us so we continue to have that focus. Raw material price volatility, we have plans to address this for more sensitive businesses.

Abhishek Agrawal: Sir second question is on in cash side, our cash has increased year-on-year when will it be normalize, it is on a higher side, which has been creating stretch on the cash flow, so when will be able to normalize this interest cost?

Aditya Rao: You would have heard of the announcement we have made which is regarding the sale of a solar subsidiary so part of the reason interest cost is higher especially in the last couple of years is because of this subsidiary, which was financed what you can look forward to is now that this subsidiary is going to be sold, what we will see is a dramatic reduction in our overall interest cost. Our interest cost both from standalone point of view and consolidated point of view will decrease. If you were look at our overall interest cost for the financial year standalone from 8.3% where it 8.94%, the majority of which is in bank charges so as that will trend to move down. What you are going to see is decrease on that over the next few quarters through a combination of factors one renegotiation of bank charges, second the sale of the solar subsidiary and third of course the proceeds from the sale. We are going to be getting substantial capital gains from that so that also is going to address our interest costs so you can on a steady state basis you can expect our interest cost to be 3%-3.5% of our growth rate.

Abhishek Agrawal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Good morning Aditya and congrats for the good set of numbers for the second consecutive quarter. My question was regarding these sale of solar business that you just mentioned so what is the total, is there debt in the business and so what is the net equity inflow that Pennar standalone parent will get from the sale of this business?

Aditya Rao: The total amount of debt in the consolidated entity as it relates to Pennar renewable subsidiary is about Rs.140 plus Crores approximately. What is going to happen is Rs.101 Crores that is debt and the remainder is in equity in the subsidiary, which was financed through debt at Pennar Industries. So that money flows back to the parent then which should happen in the next few days or week we will see that much reduction approximately.

Sachin Kasera: From what I understand the total money, which is deferred in the business close to Rs.140 Crores, 100 Crores which is debt in the balance sheet of the solar business and around Rs.39 to Rs.40 Crores which was taken as debt by Pennar Industries then put as equity in the solar business. My specific question is when we are exiting this business do we make any capital gains over and above the 140 or we just get by debt in that way we put in the company.

Aditya Rao: We get substantial capital gains. In terms of the equity or the money that Pennar Industries put in we are expecting what we have signed off on about 51% percent capital gain per year over the last one-and-a-half years. So you can say the number wise it is about 17 Crores of capital gains.

Sachin Kasera: On Rs.40 Crores of investment, so basically we should be able to reduce our debt from this inflow Rs.55-Rs.56 Crores?

Aditya Rao: The total debt decrease will be 150 on a consolidated basis.

Sachin Kasera: Standalone basis?

Aditya Rao: On the standalone basis you will have close to Rs.50 Crores reduction in debt.

Sachin Kasera: My second question was have you provided any specific number on the order booking for the railway business, I joined call us slightly late do not know if I missed that number?

Aditya Rao: We are at Rs.130 Crores and we expect this to go up in the next few quarters substantially.

Sachin Kasera: My second question was you did mention regarding the sustaining margins about 10% on consolidated basis and now if I see the last seven to eight years history of the company I think the peak EBITDA on parent standalone is that we achieved closer to I think around 13.5% to 14% that was in 2011 after which last five years has obviously because of macro been a struggle, last two quarters we have also started to see again growth come back to the company so from medium-term say two to three year perspective you think is that 13.5% to 14% of the net, the company can again aspire for that was those times when the margins were much higher and because the world has become more competitive we should look at more stable over set of margins going ahead?

Aditya Rao: We target margin growth. Now because we are raw material intensive industry and across the verticals raw material prices can tend to be as high as 70%, but most of the time there are in 55%-60% range. What we like to maintain and improve is the spread that we get, but raw material price would increase precipitously it tends to have a very bad impact on our margin percentage even though the absolute number may not have gone down. For example, last year we had a higher even EBITDA in March 2017 financial year we closed, but from the margin point of as you said our peak margins were around 13% range. Our goal is to get to that number specifically by adding businesses, which have higher ROCE 20% plus ROCE and we do not have any revenue, which we do not expect to be more than 10% so my sense to you what I would like to tell you from on a planning point of view is that we only add revenue at a differential of more than 10% and most of the time it tends to be much more than 12%, 13%, 14% but from a margin point of view over the next few years it would be difficult for me to comment because it is very dependent on what happens to raw material prices. If raw material price is held by 30% then I will absolute hit 30%, but that may not happen, raw material price may increase or decrease, they are volatile by very nature so what I can commit is that we will maintain 20% ROCE, and if any business, which does not give us 10% EBITDA we are going to exit.

Sachin Kasera: Sure and just one specific question on the swift business, your presentation mentioned that you are looking at GP business and that will substantially improve the EBITDA margins can you comment a little bit more on that what exactly is that we are planning?

Aditya Rao: I should have elaborated. It is internal parlance. GP stands for galvanized plane essentially the strip galvanizing line, which we have commenced operations on about 1.5 months ago. It has been quite successful. We believe it will hit close to Rs.100 Crores in revenue in the financial year itself so if continuous automated line where we convert our coil be it HR or otherwise to galvanize coil, which can be used for solar, which can be used for crash safety barriers, we can use for purloins and PEB. So we have been quite successful in getting it operational and we believe that obviously the margins for that also will be above 10% EBITDA wise and we expect that business to significantly contribute not only to strip galvanizing phase, but even downstream sales such as GP tubes for example will substantially improve because of this line.

Sachin Kasera: Thank you very much.

Moderator: Thank you. The next question is from the line of Sukrut Deshpande from Vibrant Securities. Please go ahead.

Sukrut Deshpande: Sir the cash which we are receiving from asset sale where are you going to deploy other cash we have any strategy or plan in place?

Aditya Rao: Currently the idea would be as mentioned in the last call, to remove debt, but we obviously reserve the right to raise the debt again provided we have significant capex plans for this financial year as well. The majority of that would be met with our internal accruals but if we need to then we reserve the right to as of right now. We will be doing a write down on the debt, which is not eye to begin with, but it will as of right now it means deduction in debt of Rs.150 Crores.

Sukrut Deshpande: Second on tubes business do you expect this performance to continue in next three or four quarters or something like that?

Aditya Rao: Absolutely I think I will not provide numbers, but I can provide broad range. You should expect double-digit growth in tubes in revenue, EBITDA, profitability over the next few quarters and financial years. We believe we are not market leader here, we are in CDW. TI are ahead of us, they are seven times our size, Good Luck is ahead of us, others are ahead of us, so we are number 3 or number 4 so this plenty of market share growth that can be taken up.

Sukrut Deshpande: Can you share inventory numbers of standalone business?

Aditya Rao: Inventory we have typically measure in tonnage. It is not always appropriate but it is a good enough numbers so overall inventory currently is that 24000 tonnes, we can get you exact number but that is the current level, which is 24000 tonnes.

Sukrut Deshpande: In terms of Rupees?

Aditya Rao: Value wise.

Sukrut Deshpande: Yes value wise?

Aditya Rao: Value wise it would be about Rs.100 Crores plus.

Sukrut Deshpande: Rs.100 Crores plus so if I am right in March 2017 your inventory all Rs.188 Crores right?

Aditya Rao: Yes we have significant decrease.

Sukrut Deshpande: Thanks. On steel business could you share your revenue breakup from that special grade steel?

Aditya Rao: Special grade steel currently is that we have exceeded last year numbers, we started this plan last year so last year we are averaging about 750 to 1000 tonnes on per month basis. Now we have reached a number, which was closer to 1300 to 1400 tonnes. Overall again this will contribute Rs.100 Crores this year in revenue?

Sukrut Deshpande: Understood so and your target is to reach 2500 tonnes per month from new business right?

Aditya Rao: Adding some more capacities specifically in annealing and some more Auto Gauge Controls, our goal is to get 3000. 3000 is the goal.

Sukrut Deshpande: Any comment on Enviro business its order book and something?

Aditya Rao: Quite good. I think, it had a strong performance this quarter. I think we had double-digit growth in that vertical as well. For this financial year, we expect there are lots of orders that have happened. The order book currently is close to Rs.200 Crores plus on that and some of closer to some big one so we will hope to grow revenue significantly there.

Sukrut Deshpande: Thank you Sir.

Moderator: Thank you. The next question is from the line of Vaibhav Barjatiya from HNI investment. Please go ahead.

Vaibhav Barjatiya: Aditya, thanks for providing me this opportunity and congratulations for a good set of numbers. I did have two questions. One is on the solar subsidiary that we are now selling what is the contribution in terms of profit of the solar subsidiary to our consolidate numbers in terms of EBITDA, PAT and these kind of numbers?

Aditya Rao: So that is actually good question and we typically do not give out subsidiary numbers. We give standalone about standalone consolidated. PBES stuff, because PBES is listed but in this case, we have had to declare to the exchanges exactly what gross sales from the operations are so Rs.7.33 Crores was the revenue from the solar power plant for the last quarter in Q1. So this is the last quarter that will be there from Q2 onwards this drop.

Vaibhav Barjatiya: Okay but in terms of profit, in terms of EBIT, how much EBIT is portfolio full assets generating for us?

Aditya Rao: Typically EBITDA margins are high. We have not given an exact number out but let me check on this and I get back to you. We have the number, but I am not sure so we will get back to you once on this question, but it is high EBITDA.

Vaibhav Barjatiya: Sure got it, but just generally in a broad range what kind of ROCE we were making on this solar investment, do you have number on that top of demand?

Aditya Rao: I have ROE number for you that is about 17%.

Vaibhav Barjatiya: Sorry how much?

Aditya Rao: 17%.

Vaibhav Barjatiya: 17% okay and another question is that in the shareholding group mainly Mr. Rao and Mr. Puljal so what is the relationship between the two groups?

Aditya Rao: Mr. Puljal and Mr. Rao, which could either referring to myself or to my father, part of Promoter Group of Pennar Industries it is called Nrupender Rao Associates, the relationship is that I mean they are related in terms of they form promoter group, there is no relation per se.

Vaibhav Barjatiya: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Lalaram Singh by Vibrant Securities. Please go ahead.

Lalaram Singh: Wonderful results in this quarter and congrats for that. I had few questions. First one was I mean recently you have seen a significant price in steel prices in the last few months, so do you expect some margin pressure and industry standalone as well going forward?

Aditya Rao: Sorry it was little muffled, but as I understand the question you are saying thank you for the question first of all, but yes there has been an increase in raw material prices the impact of that on that margins was that your question?

Lalaram Singh: Yes correct.

Aditya Rao: Okay excellent. So we will continue to be subject to market prices, in some cases, some of our business such as solar it is not an issue because we pass through immediately. In some cases railways it is a non-issue because railway the raw material costs are far higher because we use very specialized grades, we use SS, stainless steel 316L, which are lakhs per tonne, so 1%, 2% increase in raw material price or something that we and typically it is a high margin price business, so it does not materially impact our operating margin. Some business units the impact is quite substantial specifically tubes and/or what we call our legacy business vertical such as CR and others and even the special grade business, the new business we have added, so our efforts are to pass on the increases as quickly as they happen. PEBS for example one of our subsidiaries uses quarterly price contract, so that is alleviated the pain to some extent, but quite frankly the single fundamental risk in this business is raw material price volatility. We are working on various ways we can address that, but whenever you have very significant price escalations for quarter or two you should expect a quarter I would say before margins can be realigned, it can go the other way round to it, if the price were crashed tomorrow for example my margin in several of our business verticals would rise substantially and over a period of let us say one quarter, two quarter then they stabilize again, so I would be lying if I said it was not a risk, it is a risk and the price increase that we are seeing will impact some of our business units, but as a diversity on a consolidated basis you should not expect a significant decrease, not even a 100 basis points.

Lalaram Singh: Understood and also the Enviro business, although we have order book, which is around 2, 2.5 times our annual revenues, but the revenue growth seems to be compared to that on a estimated growth, so I assume it is somewhere between 15% and 20%, so do you think is there issue with pace of execution or is it the normal way it works in this business?

Aditya Rao: It is a good question. I think you are right in the percentage growth of Pennar Enviro and there is no issue per se over there. I think the business model that we have adopted is one of quickly picking up references and prequalifications. The operating margins for this vertical are good, but the manner in which we execute these projects is – we take cues from our customers, so our operating cycles are short sometimes, to give you an example if you were constructing a refinery for example, dimineralized water plan for a refinery for example we take our cues from when they are executing, so generally we are exposed to a lot of timeline, not price risk, but timeline execution risk from our customers, so if you are working with Nuclear Power Corporation if they delay their execution for a bit that kind of tends to affect us. There is not a price impact on this, but it does tend to have revenue impact. Obviously as you said order book is much higher than we should have more growth. My suggestion would be that we monitor it on a quarter-to-quarter, year-to-year basis. If you look at the last three years it has grown from Rs.5 Crores to last year closed it at about Rs.117 Crores.

Lalaram Singh: That is fantastic growth, absolutely.

Aditya Rao: My suggestion would be that we are consistently focusing on growing that. The addressable market size for that business is very, very high in tens or thousands of Crores. So there is no market impediment to growth. We continue to book orders and try to push revenue out, but fiscal discipline before all else, no expansion massively in working capital and if our customers are delaying some projects then we will sit on them, so that is the take away.

Lalaram Singh: On the tubes side, I think we have shown significant growth, so was it driven by ERW you said I think in the opening remarks correct or CDW?

Aditya Rao: Both ERW and CDW. Currently our CDW we are shipping out about 1000 tonnes a month and we are able to book about 1600 tonnes from the market, so we have tremendous supply gap that we can address, so we are building up our expanding capacity as far as we can there, but growth in the company took place because of growth in CDW and ERW both.

Lalaram Singh: Sorry can you just explain me that why we are growing so fast in this segment, so naturally the question arises that are we taking market share from someone?

Aditya Rao: The market itself very vast. Let me just give you the comparison of CDW. So CDW nearest to our competitors, TI does about 7000 plus every month, we are at the same. Another competitor Good Luck does about 2000 tonnes. There are other who are at the 2000 tonne level, so we command about 3% to 4%. The market itself is growing at 10%, so even if take the market gain that itself gives me a market share rise, so we do not want it to be 20% or 15% in the market. We typically try to get 10% of any market and then we want to steady state and grow as per the market rate because of that right now the last quarter or two we have taken some advent of market share, but overall we are a small player in this, so our ability to grow market share is quite good. Metric should be revenue, size, growth, scalability and I think over the next one to two years if we can get to that go from 3% to 5%, 5% to 10% then that would be what we will consider a good number and this applies to CDW and ERW both.

Lalaram Singh: Right and we have also I think catered significant export customers in this business in the press release you have mentioned?

Aditya Rao: We do, in the last couple of quarters; we have also expanded to shipping some of these, specifically CDW to the US. We picked up Comprinox as a customer and Salem Steel is our customer and others as well. We also have a base in the US in terms of a small sales office, which will also be marketing these products there, so yes we expect revenue growth in the US. Foam Tube is another product, which we want to add in the US as well.

Lalaram Singh: Sorry I missed that which one?

Aditya Rao: Foam Tubes is the process that we follow, it is another product that we are adding.

Lalaram Singh: So export is also a focus area in this if I am not wrong.

Aditya Rao: Export is a big focus area for us.

Lalaram Singh: The margins are better there compared domestic?

Aditya Rao: Almost double.

Lalaram Singh: Amazing and the industrial side also I think we have grown in this quarter a 15% revenue wise?

Aditya Rao: 17%.

Lalaram Singh: After a long time, yes so can you throw some more light on what exactly has happened, sustainability of this, can you throw some light?

Aditya Rao: For past few years we have been adding a lot of customers, even for industrial components I think exports of the business, which has picked up, so we have ordered Xylem in the US as a customer. They are a water treatment company. We are manufacturing some dry heating solutions for them. We added Firestone as a customer. We are making components for them as well and hydraulics revenues from Bailey has also picked up substantially with a good amount of ramp up in our uptick from them. So last year we are almost doubling just the Bailey revenue and we have additional pickup also from our what we call as security solutions, typically we used to make these bollards and wedge barriers as we call them they used in facilities to prevent unauthorized vehicle entry, so that business vertical is something we are focusing to grow on as well and there is some pretty large orders close to $3 or $4 million a piece, which we are bidding on right now, so that too has resulted in a ramp up in our enquiry band activity, but overall the growth of new customers adding and US revenues from Bailey and Xylem and Firestone has increased the revenue.

Lalaram Singh: Also from the JV in US is it correct JV between Pennar Industry and PEBS in US?

Aditya Rao: Yes that is correct.

Lalaram Singh: So what kind of opportunities are we looking from that JV?

Aditya Rao: Virtually the entirety of product line, so the rationale for putting the JV was pretty simple on a lot of our products be that be solar module mounting, tubes, hydraulics business, even our engineering services business in PEBS are actually can be much larger, the markets in the US are vastly larger, so our goal is to setup in the US first the rep sales presence in order to cater to this verticals and even potentially add manufacturing and engineering capabilities there as well in order to ensure that we can expand those verticals that is the idea, we made a beginning in this year, but over the next few years based on how successful we are implementing our growth strategy there we will take the next step, but the early indications are quite good, quite strong, we have seen successful in increasing revenue.

Lalaram Singh: Got it, one last question Aditya, the promoters shareholding is actually at less than 40% do you think it is a cause of worry in terms of the conviction, which the market participants can have in the company? Do not you think promoters if they are very positive about the company's prospects ideally should increase shareholding in the company, if you can give some comments on that?

Aditya Rao: I agree with you. I would speaking of the promoters right now I think they are very interested in increasing their stake and they have plans too.

Lalaram Singh: Okay Sure. Thanks a lot Aditya. All the best.

Moderator: Thank you. Next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Good morning Sir and congratulation for good numbers. Sir can I have the order book in solar?

Aditya Rao: The order book currently in solar, which covers the next couple of quarters for Pennar Industries, is close to about Rs.150 Crores.

Vikram Suryavanshi: Can we get the numbers in terms of Pennar Enviro in terms of revenue what we did and broadly EBITDA contribution?

Aditya Rao: Typically let me get back to you on the other subsidiaries specifically Pennar Enviro and Pennar Renewables. We do not typically declare those numbers out, so let me check and get back to you on that, but we have given consolidated, so to an extent both of them as a blend you can figure it out, but we will not be giving that out on this call right now.

Vikram Suryavanshi: Can we get the consolidated debt number as of now? How much is debt on consolidated basis and standalone?

Aditya Rao: Our long-term debt in standalone is 72 Crores, our working capital debt is about 95 Crores, which is what has been used, so it is about 150 Crores. Consolidated debt would be, we will get back to you on this number. I think apologize we should have this number, but we do not right now.

Vikram Suryavanshi: Cash balance in standalone?

Aditya Rao: Cash balance would be about close to Rs.54 Crores in the standalone entity, consolidated would be over Rs.100 Crores.

Vikram Suryavanshi: Any change in capex plan or what kind of capex will you expect in FY2018?

Aditya Rao: FY2018 we would be looking at similar number to last year, which was about Rs.35 Crores, we will look at a similar number in this financial year, a little higher perhaps because some of these as the accelerated revenue growth we are looking at expanding some of our capacities at a little faster cliff specifically tubes for example, so we may alter that a little bit, but you should expect a number between Rs.40-45 Crores.

Vikram Suryavanshi: Last question Sir in terms of there is goodwill of around R.35 Crores in FY2017 consolidated balance sheet, so can we just get more clarity on that?

Aditya Rao: This was for the solar entity in terms of investment it was not capitalized at that point so that is the reason it is sitting there. I am told that is the way it is done investment in a subsidiary, but as per the latest balance sheet that has been capitalized, next balance sheet you will see a sale on that, so it refers to investment in Pennar Renewables.

Vikram Suryavanshi: That is related to accounting because it was developed by us so it was not acquired as such?

Aditya Rao: No, it was an investment. It was acquired as a company. There was a company has held the PPA which we executed, so we invested into that company that investment was taken as goodwill, so it is not called as an acquisition, you can call it I guess - we invested into that entity and diluted the equity there and now we have exited.

Vikram Suryavanshi: Got it. Thank you Sir.

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

Manish Bhandari: Good morning. I am very glad to see the divestment of the solar division and also the change in the auditor. Few questions, one is regarding the merger of Pennar Enviro that is one thing I have been waiting for, so is there any progress, which has been made on that issue?

Aditya Rao: On the proposed merger Pennar Enviro we have not declared anything. The independent directors of the board of Pennar Industries are taking them up. I will ask them to get in touch with you, Manish and give you further. This is not a dodge. I do not think I am authorized to speak on behalf of the board on this.

Manish Bhandari: That is on the card and may be we could see something in the next one quarter or two quarters, so is it what something on this?

Aditya Rao: I think the intent of course is to create one entity that is what the board has I can definitely say that much. We want to create one entity, but I think for the timelines for that, the progression for that, frankly the decision for that will be taken up by the other shareholders of Pennar Industries, we will be refusing ourselves because we are an interested party, so I will ask the independent directors to issue some clarity on this.

Manish Bhandari: My second issue was regarding context I understand the vagaries of possibility of surplus sales of land, which is a possibility of monetisation, so is there anything if you could throw some light there that could be meaningful divestment which would take place and which could create a cash for us in the company?

Aditya Rao: I will again give the details to you later, but yes the company holds onto substantial land assets, one of the those land assets for example is about 55 acres of land in prime real estate almost in Hyderabad, so we are looking a ways in which we can divest in that, also on this I will speak to the board and revert to you, but I can definitely acknowledge that we have plans to divest any land assets, which are not being used for the company's operations right now.

Manish Bhandari: My another question is regarding the hydraulics business and you with all your efforts have been trying to turnaround that business and there is some traction, so you have some number in your mind, which is a wish list, which you could achieve because in all your business profile one of the toughest business to gain customer is the hydraulic business so if you could throw some light that what is the game plan and how you could reach to a sizeable meaningful business opportunity in the hydraulic business and how tough it is and do you need some different skills set here and you would require some reorganization and retooling of the team and organizational structure on the hydraulics business?

Aditya Rao: You are right Manish and I think we have obviously had some conversations also on this, so hydraulic business we acquired about three, four years ago. It has not scaled up in the way we wanted it to. It is a good profitable business, but considering what the potential for it is where you have market leaders which is Wipro Infra having a 1000 Crore plus in hydraulics when you have Dantal at 200 Crores when you have, several other hydraulic companies had that on that level. Our revenue of Rs.5, Rs.6 Crores, which is what we had last year is obviously very, very small, so we have plans now, we are expanding this revenue quickly. The key to this growing hydraulics will be for us to put together a value proposition, which can help us compete with the Wipros and the Dantals which means not just hydraulic cylinders, but hydraulic systems including power pads, screens and walls and all of those as well, so this is something you have taken up very seriously. We have done a fair amount of team building over the last couple of quarters in order to acquire the human capital resource we will need to build this up and after that – capex we need to spend money but getting out they are putting a value proposition in front of the market and getting orders is the task we set for ourselves, but we think we have a game plan now, it will take us a little bit of time to do good product development and get to that space, but I think what I would like to see is over a five year period hydraulic business growing to at least Rs.500 Crores that should be the dream that we should have because the market certainly has several companies in the Rs.100 Crores and even Rs.1000 Crores company, so I do not believe it is unreasonable target for us to have.

Manish Bhandari: So you mean to say the hiring what you have done is from the competitors and you have a game plan where there is a lot of substantial investment would go into hydraulics in next two or three years?

Aditya Rao: I would not say it is a very high investment per se. I would not even say it is more – it is not going to be a more than 10%, 15% of our total capex, but what would be necessary is as you said will build up the team, we will acquire new customer, scalable customers, we will look at markets not just in India, but also in the US, we have had some success doing that and we are constantly quoting, we are quoting for two of the largest dealers in the US hydraulic dealers as well, so if some of those strike then we will be able to quickly ramp up revenue. Those are our efforts, markets and team. Capex is easy to build up.

Manish Bhandari: Aditya, my another question is regarding the profile of railway business and there is a lot of which has changed since 2011 and 2012 when you saw substantial increase in the margins in the integrated coach factory as a customer and now with metro as a customer and various widespread customer, so I wanted to understand how sustainable this business can become over a period of next four and five years and what is the size one could achieve and would you see a significant change in the margin profile of this business and I am sure you have done as I understand some development on the product side also, so if you could throw some light that this business at this point of time, it is one of the fastest growing business, so is it just the recovery in the business, which is bringing this to or there is a new profile of the product, which we have added and which have expanded the scope of business in the railways?

Aditya Rao: When you talk of railways business you would break it into two pieces, wagons and coaches, wagons, we are not very bullish frankly speaking, what comes, comes, there is no real way for us to affect an increase in revenue there because it all dependence completely on the railway board and the orders that they give out. Coaches on the other hand have a very well defined plan for growth, by that I mean customers do the market in turn does, and it is very easy for us to plan for the next few years, so I would say majority of revenue in railways is coaches, wagons represent a small portion of that and going forward to this will become more and more, we will see coach revenue increase rapidly from both integral coach factory, from BML, from MCF and from others and I think you mentioned product development, so yes we will go into categories that includes some stainless structural, some interiors as well and also some modular toilets and others in addition to what we are already doing right now which is head wall, side wall assemblies and under frame components, so we will ramp up our addressable market for the coach business and I think you can take the coach business revenue as pretty sustainable, not even sustainable you can take it as a growth business, wagons not so much, but as the blend because wagons is a much smaller part for revenue in the entire railway business you can be quite bullish.

Manish Bhandari: My last question is regarding in your last conference call you spoke about the stainless tubes, so I just wanted to pick your brains that what kind of business opportunity you have in the stainless tube and what kind of technology what you require and who are the addressable customers for us?

Aditya Rao: Stainless steel tubes as a project which we have we have invested in it is we expect it to come be up and running very, very soon in the next few months and definitely in this financial year itself we are already planning some market activity. The primary customers again will be coaches, Integral Coach Factory and others and also pharmaceutical companies and some other process industries. Export is a very viable vertical here. From a technology point of view we do have several subject matter experts helping us implement this, it is different from regular tube, they are nuances to it, but we are quite confident of being able to cross that technology gap and start revenue in this financial year, substantial revenue in this financial year from that line as well.

Manish Bhandari: Thanks a lot and hope to see you again on the conference call. Thank you.

Aditya Rao: I just wanted to elaborate on one of the questions I was asked so the total long-term debt in the company is - consolidated entity is Rs.360 Crores and in the standalone entity is Rs.160, this includes cash, non-cash, long-term and all.

Moderator: Ladies and gentlemen this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you Sir!

Aditya Rao: Thank you for your questions. I hope we have answered most of them, if not our investor relations team Jill is also here with us. We would love to guide you to her and please do not hesitate to reach out and we love to answer any further questions that you have outside of this call as well. Thank you for your support and we will look forward to growing Pennar further. Thank you.

Moderator: Thank you Sir. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

(This document has been edited for readability)