"Pennar Industries Limited Q4 FY15 Results Conference Call"

May 14, 2015

Dolat Capital Thinking laterally

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MODERATOR: **MS. DEVNASHI DHRUVA – DOLAT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY15 Results Conference Call of Pennar Industries Limited. We have with us on the call today Mr. Aditya Rao – Vice Chairman & Managing Director. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Devnashi Dhruva of Dolat Capital. Thank you and over to you ma'am.

Devnashi Dhruva: Thank you Malika. Good morning all. We on behalf of Dolat Capital welcome you to the Q4 FY15 conference call of Pennar Industries. We have with us Mr. Aditya Rao – Vice Chairman & Managing Director of Pennar Industries to discuss the Q4 FY15 Earnings and the future outlook. I will hand over the call to Mr. Rao. Thank you and over to you sir.

Aditya Rao: Thank you so much to all the stakeholders of Pennar Industries joining us on the call today. It gives us great pleasure to be with you here today for the investor conference call for the fourth quarter and for the financial year ending March 2015. I am joined by our CFO – Mr. Krishna Prasad and by Mr. Manoj Cherukuri – our Head of Corporate Planning. To begin with I will take you through an overview of the performance of our six business verticals which form the consolidated revenues of Pennar Industries Limited and after that overview we will open up for calls and for clarifications on everything.

To start with consolidated sales we had gross sales for the quarter of Rs. 415.3 crores, net sales of Rs. 366.7 crores, EBITDA of Rs. 45.2

crores at a margin of 12.3% and a net profit of Rs. 16 crores at a profit margin of 4.4%. The basic EPS for the company was 1.33. From a year-on-year growth percentage our revenues increased by about 14.2% and our EBITDA margin by about 50**.3%.**

Our net profit however grew by a much larger amount for the fourth quarter by 115.9%. For the financial year in question we had gross sales of Rs. 1446.5 crores which is a growth of 11.7% over the previous financial year. We had EBITDA of Rs. 117.5 crores which is 30.9% growth over the previous year's EBITDA. And a net profit of Rs. 35.90 crores, which is a growth of 38.4% over the previous financial year's performance. The basic EPS for the company for the financial year was 2.98, which is about a 39.4% growth over last year. Out of the six business units that we have we recorded growth in five out of the six business units. We had EBITDA growth in all of our business units and profit growth in all of our business units. From a segmental performance point of view, for the fourth quarter we had our steel products, which is our commodity business declined further in revenue. This is a trend that we will continue to see as we focus on growing other areas of our company and the commodity business comes down as a proportion of revenue and the proportion of profitability. The EBITDA margin, however, did increase to 7.3%.

Our systems and projects business which comprises our railways and our solar businesses recorded very good growth. We had fourth quarter net sales of Rs. 81.7 crores and the EBITDA margin because of economy the scale also jumped to 13.8%.

From a segmental composition point of view tubes has always been one of the businesses which has grown well over the last couple of years. We expect this trend to continue and in the last quarter we recorded Rs. 35.8 crores in sales and the EBITDA margin too was higher at 7.7%. Our industrial components business primarily caters to automotive components and the white goods and general engineering sectors. We had growth in that segment as well. We ended the quarter at Rs. 17.8 crores with an EBITDA margin of 15.9%. For the subsidiaries as some of you will be aware we have filed a draft Red Herring Prospectus with SEBI on the 27th March. As per active ICDR guidelines, nothing outside of the DRHP can be mentioned in this presentation. So while I will be able to give you the consolidated picture and the standalone picture I will not be able to go into detail on Pennar Engineered Building Systems.

Our other subsidiary Pennar Enviro has recorded very good growth in the last quarter. Our order book stood at Rs. 57.6 crores and with the addition of some more orders we have booked in the fourth quarter we are now expecting very high growth for this business division this financial year. We have several new customers, large customers such as Cairn India, Sogex Oman India Limited and also HDO and we have received repeat orders from a lot of marquee client there which includes Hetero Drugs, a very large pharmaceutical company, United Spirits, Larsen & Toubro and others. We expect high growth to continue in this business segment and going in the next financial year we have very aggressive growth targets.

So that in a nutshell is the financial performance of the divisions. I will be able to take further questions on the performance of the company or the various business divisions and also a little bit about what our plans and initiatives are for the next financial year.

I would like to hand that back to the moderator for questions.

Moderator: Thank you very much sir. Ladies & gentlemen we will now begin the question and answer session. The first question is from the line of Pawan Kumar from Unified Capital. Please go ahead.

Pawan Kumar: What could be our outlook on revenue growth next year and can you comment on the EBITDA margins if they are sustainable on yearly basis or quarterly basis?

Aditya Rao: For the next financial year, as I said, I think we have made it a firm policy to not give guidance especially not break up because we are going through a DRHP phase for one of our subsidiaries right now but I can tell you that we expect growth to continue. We expect good growth in Q1 as opposed to Q1 of last year. So we typically measure ourselves on a year-on-year comparable basis and on that basis we do not expect growth to decline in any of our business units. The one exception to that can be our steel products or commodity business where we are actively not investing capital into the legacy business of the company. So while revenues will not decline as a proportion of their sales of the entire company they will be an impact. The sustainability of EBITDA margin is a very important question. We had targeted for the last financial year of EBITDA margin of close to 10%. We actually got very close but I think in the end we ended up at about 9.3% on a consolidated EBITDA basis and the reason for that slip essentially are some revenue which we were expecting to convert but we did not convert and the other reason also is that the treatment has changed where Scrap sales are now included in our net sales number and are not netted off from our raw material cost as it was in the previous quarter. So that has resulted in decline in EBITDA margin, or an apparent decline in EBITDA margin but the absolute numbers obviously remain exactly where seen. To answer your question, we expect the 10% EBITDA margin as we would want to continue on that margin and we expect further margin growth next financial year as well.

Pawan Kumar: This revenue growth last year as a whole it was just about 13%. We are saying you will gain momentum in the coming year but you are confined to give a division wise growth rate. Am I right?

Aditya Rao: Some divisions I can give you an idea what we expect but this will be indicative. I would not call them guidance. The intention is to give you an idea of what businesses we are focusing on, what businesses we see growth coming in. You are right 12.7% is the overall growth of the company's revenue but if you look at the broad makeup of it you will see declines in fact in our low margin businesses and very heavy growth in our high margin businesses such as systems and projects and PEBS I cannot really comment, but our high margin businesses are growing.

Pawan Kumar: Can you comment on your hydraulic business? Actually what it is and what is the growth we are expecting with that particular division? What is the nature of work we do in that particular division exactly?

Aditya Rao: We make a range of hydraulic cylinders which are used in construction equipment, which can be used in solar module mounting systems and also in various securities solutions that we supply. So we have picked up the assets of a company called Wayne-Burt Petro. This is about 2-2.5 years ago. What we have done now is incorporated their technology, their product development into our business division. It is currently housed in the industrial components division. The numbers are still modest but we have picked up in the last quarter orders from Bailey, an American company and also for FNSS which is also an American Company. In India we are supplying to BEML. The total size of this business division will not be very high. We expect somewhere around Rs. 10 crores of business from this business unit in this financial year. But we do believe that the potential is very high. The addressable market size is very high. So over the course of the second half of the next year, or this financial year once they have stabilized and started recording order book growth in this business we intend to make capital expenditure. We intend to have expanded our capabilities to include honing and push pointing and other manufacturing capabilities, which will allow us to take this business up much more. Our five-year plan is to make this business Rs. 200 crores.

Pawan Kumar: What would be the CAPEX plan for the year and when is the IPO for the PEBS expected?

Aditya Rao: The CAPEX plan for the year on a consolidated basis I will be able to give you and of course on a standalone basis as well, will be close to about Rs. 50 crores. We do not need to raise any debt for this. Our own internal accruals will suffice for us to meet our cash flow requirements for implementing those capital expenditure. As far as the PEBS IPO is concerned I think all I can tell you right now is that we have filed a DRHP and we are awaiting SEBI's response.

Pawan Kumar: Where would you be investing in the CAPEX, in which divisions?

Aditya Rao: Our capital expenditure will go into and this does not include PEBS, will not be commenting on PEBS. So Rs. 50 crores that I have given you is not withstanding PEBS CAPEX. But the CAPEX of Rs. 50 crores will primarily flow into our railways business, our solar business, our industrial component business and our tubes business. So with the exception of our commodity CR business everything else will have CAPEX. We are also envisioning some plans to get into high margin special grade steel as I mentioned in the last quarter call but we are reviewing there at the board level and I will have more for you on that in the next quarter. As of right now three out of the six business units, I was not commenting on PEBS, are going to have that CAPEX of Rs. 50 crores.

Pawan Kumar: Can you share the income from railway division and what is your expectation from railways for FY16-17?

Aditya Rao: Railways has actually done very well from a very moderate revenue level. In the last financial year admiralty we have recorded sales of about Rs. 129.4 crores. This is a combination of both our coach business and our wagon business. Going forward we expect aggressive growth in both of these businesses, especially in coaches we are projecting at least very high double-digit growth rates and wagons too we think there is a new tender that will be opening up which will allow us to scale these businesses right. And on an overall railways business we have taken a double-digit growth target for the next financial year.

Pawan Kumar: Currently our order book stands at Rs. 83 crores only, right. So what kind of revenues we are expecting for FY16?

Aditya Rao: Rs. 83 crores for railways would be inaccurate. If we have given you that number, please allow me to correct that. We are currently at about Rs. 93 crores for just the coach business. The wagon business order book will be augmented in this quarter and will be converted into revenue in Q2 and Q3. So our projection for the year will involve this current order book plus future orders we book in the next 2-3 quarters which we will be executing in this financial year. The operating cycle is very small. We do not book orders for more than six months at a time.

Pawan Kumar: I assume you meant railways book when you said 83 crores,

Aditya Rao: Yeah, I meant Railways order book only. It is a little higher than that and growing.

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

Subhankhar Ojha: Can you comment more on these wagons which we have talked about I mean what is the order book that is there in the pipeline for this division?

Aditya Rao: For the wagon we typically have or order book that we supply to Texmaco, Titagarh, BESCO, HEI so our order inflows from these businesses pretty much comprises the order book. We have currently had at a low level about 20-30 but this goes through in cycles, so we expect closures in the next few months which will be serviced in Q2 and Q3. So as of right now the number may not look encouraging but we are quite confident that wagons will do well this year.

Subhankhar Ojha: There will be new tendering which will be happening in the next couple of months?

Aditya Rao: It is underway right now. We will have finalization in the next few weeks to a month or two.

Subhankhar Ojha: And secondly, also if you can comment on the outlook of this business Pennar Enviro, I mean that looks exciting as it is based on the growth. If you can comment more on the growth outlook of this division and the order book.

Aditya Rao: Pennar Enviro is the technology company. We provide a range of solutions there for industrial water, waste water, specialty additive treatment packages for combustion efficiency and also for water treatment and also operations and maintenance services for various kinds of treatment plants. We have multiple technical collaborations in that which enable us to cater wide range of industries. It has grown quite well but it is of a very low base, so obviously we will have 100-200% kind of growth rates. Keeping that in mind also we expect this year to be a water shed year. In fact last year we had expected substantially higher revenues but we have transferred some of that revenue to this year because we expected from an order booking point of view, there were some delays but we now have their order book in. So we are starting this year with a very healthy order book. We believe a lot more scale will be achievable in this financial year. Our goal is to believe that it is we are competing with the Thermax and VA Tech WABAG. So the market size is immense. Our goal over this year is to build up pre qualifications and structure ourselves in a way so that when in about a year and half, two years from now we will be able to make this a very good and very well performing division at Pennar. So as of right now it is a profitable fast growing revenue but low revenue. We are in double digit growth right now that could change in this financial year.

Subhankhar Ojha: And I missed out on the margin. I know that you would not give a guidance for the margin outlook but the last quarter margin was it because of your high margin divisions or is there something which is there in terms of your improvement and the efficiency, cost control. I mean how sustainable these margins are because there seems a significant improvement in your quarter 4 margin. Is it on the back of high margin businesses or I mean there is something else that I am missing?

Aditya Rao: No, I think from an EBITDA for the fourth quarter point of view, we ended up at a very high EBITDA. The sustainability of it comes directly from whether we are able to what a revenue level would be. What you saw happening in the fourth quarter is a lot more of our operating variable, which is our operating margin after variable cost itself has been removed. Since our fixed cost is already taken care of, all of that which for the entire company is close to about 17%, drop down to EBITDA, which was why you had weighted average, you had a much larger amount of EBITDA margin. So going forward we will continue to see growth and as we see growth coming in and everything we are growing is in a high margin business, for example, if you look at our EBITDA margin across all of our business divisions, the businesses which are growing, which are industrial components that are 14.7% margin systems and projects is at a 12.3% margin. Our PEB business as per our DRHP you will find that historically it has been high margin. So all of our businesses which we are looking to grow are higher margin that is why we are optimistic that EBITDA margin will continue to grow but you will have quarterly variations. There will be an element of cyclicality to this of when. In the monsoon season we typically tend to have lower revenue hence their view will have EBITDA margins declining in that front. But for the year as a whole we expect these EBITDA margins to continue to grow and are a very important part of our corporate planning is a plan to ensure that we invested in the high margin businesses which resulted in EBITDA margin growth.

Subhankhar Ojha: And lastly the consolidated borrowing number if you can share

Aditya Rao: The consolidated term loan or the long term loan of the company is at Rs. 33.06 crores. It is unchanged from the last few quarters. We have not borrowed any more money. Our CC usage is at Rs. 134 crores and our LC usage is at Rs. 106 crores. So we are effectively in the same place we were in at that. And this is a picture as of 31st March, which is because we had a lot of revenue going out, elements of our working capital usage, our accounts receivable all of those jumped. But we have now been able to get the accounts receivable back into the company. Consequently we have seen in a decrease. Our total debt as of right now is lower by the numbers that I have given by about Rs. 15-20 crores. So we are effectively in a very similar place we were in at the end of Q3.

Moderator: The next question is from the line of Prem Thakker from Unilazer Ventures. Please go ahead.

Prem Thakker: Just a question on interest expense, we saw it was a very high interest expense of about Rs. 14 crores in Q4 FY15. Can you comment on that?

Krishna Prasad: Yes, it is there because there are two elements there. One is that we want to have a securitization of the year accounts receivable so we struck one good deal with Toshiba where we have discounted in their limits the total year, whatever is outstanding at that time. It is about Rs. 20-25 crores and also L&T finance we have gone for their solar business. What we are doing with them, those also we are able to discount it. But all this for 120 days that is for somewhat longer period. So that has resulted in increase in days. And the second one is there is some IFCI ROR is there that we have paid during this year to clear that.

Aditya Rao: So it is a blanket picture. One was our usage during the quarter of customer bill discounting, right of recompense which we had to pay for IFCA, which was a long pending issue – an issue of 10 years ago which we finally closed and L&T Bill discounting. So those were the issues which resulted in a higher interest expense. We do not perceive that -

Krishna Prasad: It is not going to give a continuous effect because it is not going to be routine one.

Prem Thakker: Okay. In that case can you give some color of what would be our actual cost of borrowing?

Krishna Prasad: Cost of borrowing as a percentage it would be around 10-10.5%.

Prem Thakker: And sir our tax rate was also somewhat lower this quarter. What could be the reason for that?

Krishna Prasad: That is because of this solar project we had during this first quarter. That accelerated depreciation has resulted in reduction of tax.

Prem Thakker: Sir if I can also ask about PEBS historically, we have seen that generally in Q4 PEBS margins are very high. So is it due to cyclicality of the business or how does it work?

Aditya Rao: What I am talking now is for historical PEBS margin. I am not commenting on the Q4 PEBS performance. Historically as shown in the day in the DRHP also PEBS margins tend to jump in the fourth quarter primarily because of scale effects. The fixed cost we have for PEBS typically increases by about 10% year-on-year but our revenue has grown historically again at a CAGR of about 40% over the last 3 to 4 years. So what effectively happens is a lot of growth comes in Q4. Q4 is always the best quarter. So you have all of your operating similar to PIL. You have a lot of your contribution, your margin after variable which is at 20% dropping. For the increase in revenue 20% effectively becomes the EBITDA margin. So as a weighted average you have a tremendous amount of margin increase. So that is the reason why you have high EBITDA margins in PEBS as it has been seen for Q4 up to last year.

Prem Thakker: So that means a very high amount of revenue comes for PEBS and that is likely to sustain going forward?

Aditya Rao: I cannot say anything about PEBS projections going forward because of the DRHP we filed but yeah, I think over the last four years PEBS has performed well, which the numbers obviously are good.

Prem Thakker: And sir lastly on working capital – our working capital was higher obviously due to a very good business. If you can just give us some color on going forward how would our working capital look like especially the debtor days. Debtor days were pretty high this quarter so if you can just give us some color on that.

Krishna Prasad: This is because of probably last quarter when compared to Q1. Q4 the total turnover increase is very huge. So because of that only entire thing has got affected and the AR because our AR consists of last 2-2.5 months of sales only. It has now stabilized at Rs. 85-90 crores of monthly turnover. Once we are in that particular loop, AR is going to come down because during April, that is subsequent of March end we have reduced by total year by another Rs. 15 crores. So what we think is that with Rs. 190 crores per year may be, more or less sustainable once we are in that particular turnover cycle.

Prem Thakker: But sir in terms of days we have been in a range of about 75 to 85 days.

Krishna Prasad: To analyze it, it may come up to you. And by then if you go by what is the monthly, because last month of March or February if you take, on that basis our AR consists of only last two months sale. So ultimately it comes down to somewhere about 60-65 days.

Aditya Rao: And I think it is very close to that number, 75 days. In fact we are less than 75 days I would assume because if we look at our last three months consolidated sales and the total accounts receivable I think you are getting into a number which is very close, a little over two months, 2.1-2.2.

Moderator: Next question is from the line of Janakiraman from Franklin Templeton. Please go ahead.

Janakiraman: On the systems and project, on a full year basis can you give the split how much was the revenue from rail and how much was the solar contribution?

Aditya Rao: Sure, for the financial year in question the total systems and project sales were about Rs. 221 crores and the railways was roughly about Rs. 130 crores. So we had about Rs. 90 in solar and Rs. 130 in railways and a total of about Rs. 221.

Janakiraman: And roughly what was rail in fiscal 2014, what kind of growth we had in 2015?

Aditya Rao: We had a tremendous amount of growth. The total in rail was only about Rs. 70 crores for the full financial year ending FY14 so there was a lot of growth driven by both coaches and also in our wagon business.

Janakiraman: And that Rs. 130 crores, again roughly how will it split across coaches and wagons?

Aditya Rao: It will be dominantly coaches, that trend we will expect that to continue this year as well. So out of Rs. 130 crores about Rs. 35 was wagons and the remaining was coaches.

Janakiraman: I also saw a press clipping where the ICF General Manager or the ICF CEO said that Fiscal 2015 saw the maximum number of coaches being manufactured by ICF, so what is their volume growth outlook for the next 1-2 years, or is your growth basically being accelerated by the volume growth happening at ICF?

Aditya Rao: I would have to agree completely with that. I think ICF growth is very important for growing our coach business and I think they have given reasonably aggressive growth targets for this. For last financial year and this financial year both they are expecting good growth.

Janakiraman: And in the last call you were mentioning that you are trying to expand your scope of products sold within ICF and you are also trying to get onto this one bogie type of product. Any progress on that?

Aditya Rao: I am glad you actually brought that up. We have actually gone ahead and done that. We have expanded our facility in Chennai to cater to a larger number of end wall and side wall production output, so we used to do about 4 or 5 this month. We expect to do almost twice that. So that is a good number. We have also as you mentioned started manufacturing a lot of under framed components as well for ICF and that will also result in an increase in our addressable market with ICF and the Fiat Bogie plant I think is nice and operational right now. So on all fronts yes, we would want revenue to grow for the under framed assemblies and even our existing product lines also we expect an uptake in revenue.

Janakiraman: In this segment will PI's metal frame division, will that be your competitor?

Aditya Rao: It will be for some products, yes, especially the side wall what I spoke of yes, they are competitors.

Janakiraman: And previously, earlier you had mentioned that in tubes you are almost hitting full capacity utilization and you had also expanded capacity towards the end of 2014, but your revenue numbers do not indicate much volume growth. What is happening there? Can you throw some light on that?

Aditya Rao: It is actually a very important question, yes. I think tubes we have completed capital expenditure and new capital assets in January. The fourth quarter this financial year we are projecting double digit growth for tubes. Why you did not see that happening in quarter 4 is there has been a subtle change in the product profile of what we shipped out into the fourth quarter. We shipped out a lot more CDW, which is a higher margin, about 17% margin business. So we shipped out a lot more of CDW tube and not a commodity but the lesser margin Electric Resistance Welded tube production was lower than expected. This was because of a combination of factors, primarily because of a very consistent steel price decrease. So while you would see margin expansion, the margin did not get affected at all, we did have a slight dip in terms of revenue. In Q1 through Q4 we are fully expecting to come back to good growth across for ERW as well as CDW. So the new capital expenditure which we have done will start showing – we have completed out in January. You will see that additional revenue growth flowing in over the next few quarters.

Janakiraman: So what you are mentioning is that the inventory risk on the stock that you carry with you, is it?

Aditya Rao: No, we actually maintain very-very less levels of inventory. One and half months of active inventory is what we maintain at any point of time and we are good at liquidating it. As soon as we see indications of a price fall as well. So because of the prevalent atmosphere where you have monthly decreases of close to 3-4% in steel prices we are being very judicious in not storing a lot of inventory, what I was referring to was more about their uncertainty in price in price is translating to our rate contracts having to be adjusted which is essentially making it difficult for us to reach an agreement with our customers in terms of price for ERW. For the higher margin product we do not get affected and some of them they are not even tonnage base contracts. They are not rate contracts, they are lump-sum contracts so it really does not matter what the steel price is. A falling steel price boosts our margins sometimes. So what we are seeing happening is stabilization in the price now. And within the next two-three months we should see ERW go back up. So what I was referring to was that decrease in ERW output because of lower selling price that is our revenue but margin being the same. And also I was not pushing out by a few crores quite the amount of tonnage we wanted to because of a little bit of uncertainty from the demand side because of raw material price fall. No inventory is hit.

Janakiraman: But within tubes the size of CDW has it reached a level where it can start meaningfully contributing towards the segment margin?

Aditya Rao: No, I think last month we did close to about 600 tons of CDW. From a revenue crore point of view that comes close to about 4 crores. Now 4 crores at 16% is still very-very small, on a month per month. So you are looking at Rs. 50 crores a year at 16%. It is still not a very large number. But our focus has been to grow the CDW business. Our goal is to grow the CDW business, not ERW. ERW is intermediate range products. So over the course of this year and next year you will see CDW become close to 60% of the sales of the tubes business. At that point of time you will see having a reasonably powerful impact on margins. And these are sustainable businesses. They are not going to go anywhere. So it is very important for us to get this CDW equation working right and that is our attempt.

Janakiraman: And against the monthly throughput rate of 600 tons where would capacity stand at?

Aditya Rao: We had actually had about the expanded capacity for CDW comes to about 750 but we will need to make very-very moderate levels of investment. The main CAPEX cycles have already gone in. The bottlenecks are currently in our annealing capabilities and are drawing capabilities. So both of those we will expand at an expenditure of may be 3-4 crores, which is actually part of our CAPEX plan. We should be able to more than double of what we are doing right now in CDW and that remains our focus as well to do this CAPEX, to invest in product development so that consistent double-digit revenue growth and margin growth in CDW business continues. And it has happened last year. Overall you may not see a lot of growth but about Rs. 140-160 crores only for the tubes business but CDW business has grown well. Virtually all the growth is because of that.

Janakiraman: And Enviro, what was the revenue in Fiscal 2015 that subsidiary?

Aditya Rao: I am being advised by my team that if I give you that number I am essentially giving out PEBS number -

Janakiraman: Fair enough, that is not an important question. Minority interest that you have indicated on an annual basis where the minority interest comes to Rs. 72 mn, is that primarily on account of the minority stake in PEBS?

Aditya Rao: It is for PEBS and Pennar Enviro, I think as per our DRHP if you look at the shareholding Pennar Industries holds close to 67% right now in PEBS. That is as per the filing that has been given and obviously the remaining will be netted off minority interest point of view. We will be removing that, yes.

Janakiraman: And lastly on this working capital (a) the number has gone up, (b) the number has gone up despite the securitization that you have done, which means that on a like to like basis may be the working capital number has gone up even more than what has been reported. Is my reading right?

Krishna Prasad: No, it is only because of last quarter is being – because roughly around Rs. 110-120 crores is what we have sold in the month of March. It has given a sudden increase in our requirement of working capital. On an average working capital has not gone up. Only as on the surplus base it has been reflected because of last month turnover is there.

Aditya Rao: I think the numbers you are seeing are March 31 snapshot numbers for our accounts receivable. As Mr. KP has just pointed out, we work on a 2 month to 2.5 month operating cycle so when you have a tremendous jump in revenue in a particular month, for any period ended that month you are going to have a huge expansion in your working capital. That is a temporary blip which we used to finance growth. Once your accounts receivable and collections catches up it does go back down to manageable levels and that is what has happened. So I think if I am not wrong I think they are back to where we were at Q3 end. So working capital as of right now is back to the levels it was at Q3 end, about Rs. 134 crores in CC and some non-cash limits. Total cash debt of the company is about Rs. 167 which is roughly the same as it was at the end of Q3. So no increase in working capital as of right now.

Moderator: Next question is from the line of Dhwanil Shah from iWealth Management. Please go ahead.

Dhwanil Shah: Sir my question was regarding our segment sales which we have given the press release, where this time we have not shown Pennar Enviro's number separately. Have we clubbed in that number with systems and projects or where is that sir?

Aditya Rao: We have not shown that number because as you mentioned we are six business units and four of them are in a standalone entity and two are subsidiaries. The reason we have not mentioned Pennar Enviro numbers separately is if we mention that number then it becomes easy to derive PEBS numbers and since we have filed for a DRHP with SEBI for a potential listing of PEBS we cannot give out any information which was not mentioned in the DRHP. So it is an avoidance measure essentially intended to make sure that we are compliant with ICDR Regulations.

Dhwanil Shah: Sir next question was in tubes. As you said that we have done a lot of CDW pipes in this quarter and therefore our margins have increased from 4% to around 8%. Is this margin sustainable going ahead?

Aditya Rao: For CDW tubes, absolute yes. For the tubes division yes, for the CDW tubes yes.

Moderator: Next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.

Jagdish Bhanushali: I wanted to understand what is the capacity utilization in each of the business lines?

Aditya Rao: As an overall blend it is about 55-60% in terms of our total – I can say 60% for the overall company.

Jagdish Bhanushali: No sir for each of the business line if you can provide.

Aditya Rao: Sure, for commodity products we are excess. We are at close to about 35% to 40%. That is a deliberate under-utilization of capacity because you are not an efficient producer of cold roll steel. For our forms section business we are closer to 58%. Our tubes business is actually closer to 70% as an overall rated capacity. Railways, we have just expanded capacity and we have already hit close to about 60% and our industrial components business is close to about 50-52% capacity utilization. The other businesses are engineering businesses it would be difficult to give you a manufacturing capacity but what I will try to do if you are interested for all of our business units excluding PEBS I will give you the total rated capacity across our product lines and what we are at in terms of that. So that will give an overall percentage utilization.

Jagdish Bhanushali: So wanted to understand why then would be going for a further CAPEX plan exactly? Where are we looking in that for CAPEX because we are currently underutilized in majority of the….?

Aditya Rao: It is a very good question. Let me get into a little bit of detail to answer that. We are doing CAPEX in two stages. One, we are expanding CAPEX for any manufacturing plant which is currently at about 70%. If you look at OEE, once you look at from an industrial engineering point of view, once something which is 70-75% capacity it will pretty much be hand-to-mouth. We do have to expand that capacity to efficiently use that plant. 100% utilized plant is actually a very dangerous thing. So we will be looking at expanding tubes, which is at a very high capacity utilization rate. In our industrial components business, the reason for that is our new product lines that we are getting into and in order to make certain manufacturing process happen we need to invest in that. So it is new products getting into new CAPEX for new manufacturing capabilities itself. For railways we have some spare capacity left, for certain products we are having to actually build up another almost manufacturing shed in order to ensure that their overall product on roll side all goes up. So it is also a quality and upkeep kind of maintenance CAPEX as well. So even though we are at on an average 60%, some businesses are at peak specifically tubes, railways and some elements of industrial components. So for those businesses we have to do CAPEX.

Jagdish Bhanushali: So we do not plan to use the commodity based business facility that we have which is very underutilized so we do not plan to utilize it?

Aditya Rao: We do have some plans. These are currently being debated by the Board because we have consciously taken a call not to grow low margin businesses so the only way that investment will happen is if we can cater to high margin businesses, so there is a specific range of products, especially Special Alloys Steel, 16 mm CFI, Manganese Chromium Alloys and others for which we can provide high margin products and our ability to invest into those capabilities which will involve us investing into Hydrogen annealing and some CR & HR, auto gauge capabilities. That is being debated by the Board. Once the

Board has taken a call on that we will have CAPEX and the capacity utilization for our legacy business also will go up but by about 10% you are not going to see 60% or anything like that.

Jagdish Bhanushali: So when do we look into become a cash positive company in terms of operations?

Aditya Rao: I was under the impression we already were. By cash positive you mean…could you elaborate on that a bit?

Jagdish Bhanushali: What is the cash flow from operations, working capital, and the CAPEX part?

Aditya Rao: I think if you were to look at the Balance Sheet on March 31st, you would see a lot more working capital jump, so it looks like operating, well we have, but it was a necessary step for us to take to increase revenue. As I mentioned a couple of times over the call, once a drawl comes down we actually are at a very comfortable position for cash right now. Compared to the same position last year we have more cash now so I would take that to mean that yes, we are running operating cash flow profitable businesses.

Jagdish Bhanushali: Okay. And one more thing I wanted to understand in the PEBS, I am just asking in the percentage terms, how much would have been in terms of Q4 how much growth would be attributed to the solar projects in the PEBS business that is Pre-Engineered Buildings?

Aditya Rao: I would unfortunately not be able to give you an idea on that. I can comment. Our solar business is present in PEBS as well as Pennar Industries. We cater to almost different verticals but if you look at our DRHP, PEBS provides engineered module mounting systems, the design manufacture and erection, whereas PIL manufactures MMS components. So I can talk about the PIL's manufacture MMS components but PEBS is engineering supplies and I will not be able to comment not for the 4^{th} Quarter because that is not included in the DRHP.

Moderator: Thank you. Next question is from the line of Levin Shah from ValueQuest. Please go ahead.

Levin Shah: My first question is on the special grade steel that you had talked about in the last quarter, you had said that you are planning a CAPEX of Rs. 15 crores for that part and so where are we in terms of finalization of that CAPEX and how are we planning on that front?

Aditya Rao: We have that as an option I think we had our Board meeting yesterday and the Board reviewed all of our CAPEX plans. The special grade project plan was also reviewed. There is a little more feedback that will have to happen so we are definitely pushing this forward by a few weeks to a month at least. By the time for the next conference call I should definitely have something on this for you but as of right now we are exploring it further and making sure that since the business we are investing into its commodity we want to be extremely sure that numbers such as Return on Capital Employed, numbers such as ROI are robust enough. We believe there are but we want to re-evaluate them once more and then go ahead with the CAPEX. So the plan is still to invest into these capabilities but we would like to do it after a certain amount of further due diligence is conducted.

Levin Shah: Okay. And that CAPEX would be in what range? I mean in the range which you had said earlier like 15-20 crores or it would be on a higher side?

Aditya Rao: Once its finalized we will give you an absolute picture but it will approximately be 10 to 15 crores.

Levin Shah: Okay. And this special grade steel that we are going to manufacture you said that it will be on a higher margin side, so can it be like margins upwards of 15% or it will be somewhere around high teens?

Aditya Rao: We expect about 15%. By margins I mean variable contribution margins, so since the fixed cost has already been taken care of we expect that any additional revenue from special grades to our steel products business unit, any additional revenue will be at 15% EBITDA.

Levin Shah: Okay. And secondly on the CAPEX front you had said last time that the CAPEX going forward for FY16 would be around 30 crores and now we have revised that upwards, so where is that additional CAPEX that is being put up?

Aditya Rao: There has been a tremendous jump in Pennar Enviro in terms of the orders that we have booked. So in order to cater to those orders it will require us to build some additional design capabilities, we will have to actually be very careful to ensure that we can execute those projects well, so that is the reason we have put in a certain amount of additional CAPEX also. In addition to that we also have the 30 crores number that we mentioned was some other businesses because of the success in the tubes CDW business we want to expedite some other CAPEX plans as well. We think that we can sheaf tubes well to become a 500 crores company within the next three years. So we are preponing, if that is the word, some CAPEX plan. So the combination of both of those things has increased our guidance to 50 crores but the actual number will obviously be something once full approvals have been taken from the Board, these are indicative in nature.

Levin Shah: So you mean to say that 50 crores includes the subsidiaries as well?

Aditya Rao: It does not include PEBS.

Levin Shah: Okay Enviro. So there would be a major CAPEX happening on the Enviro front? You plan to make it?

Aditya Rao: We are evaluating the best way to do it. Once we have the exact number we will get back to you. I would not define it as major, that maybe the wrong picture for you to take back. It will be a combination of working capital and some technology investments but as far as the thing is concerned it will not include PEBS. I do want to be clear about that that the 50 is not inclusive of that.

Levin Shah: Okay. On the Enviro business like we had a target of reaching around 100 crores this year FY16, so I know that you will not be able to give numbers for FY15 but are we on track to achieve that number?

Aditya Rao: I believe we are. I believe that there was a miss, I mean while there was very high growth in Enviro as I had mentioned, it was of a very low base, so in a sense it does not count. What is important is that we are starting this financial year with a very strong order book and from a point of view of capability building, credential building, and pre-qualification building I think we are on track. I think in this financial year I am very hopeful for the evolution of our Pennar Enviro which has very good revenue growth and it also starts adding very significantly to Pennar Industries' revenue and profit.

Levin Shah: Okay. And sir, lastly on the tax rate, so if you see even historically, like last 2 to 3 years our tax rate has always been higher than the highest bracket of the tax rate, so what is the reason behind that?

Aditya Rao: I think we are effectively always at 33-34%. There may be differences in the way DTA, Deferred Tax Asset, and if you look at income tax and if you look at the 3-4 years we have always been in that 33-34% range.

Levin Shah: Okay, so we will be always paying full taxes?

Aditya Rao: There may be an exception in this year and the next year because of the solar power. We have actually invested in a captive solar power plant, so the accelerated depreciation we get from that will involve only MAT tax on the revenue from that business vertical, that's Pennar Industries standalone. That could result in a slight change but not a massive change, not more than a few percentage points.

Levin Shah: Okay. Lastly on the interest cost you said that there was some cost related to the IFCI thing, so what is exactly the cost related to that. I just want to know that?

Krishna Prasad: It is the Right of Recompense claims that we have lost, may be roughly around 2 to 2.5 crores.

Levin Shah: And what is that regarding?

Krishna Prasad: This is a Right of Recompense.

Aditya Rao: Just to give you an idea, we had a loan from IFCI about 10 years ago. We were a very different company 10 years ago. We had 75 crores of revenues, we have grown obviously 2000% since then but that loan that is repaid then….

Management: You will be knowing when we come out of CDR obviously you will be having the clause of Right of Recompense. Right of Recompense and everything put together its coming to that figure which we have taken that.

Aditya Rao: They had a right, they have invoked that right. We may not agree with it but they absolutely have the right. But that issue is now closed.

Levin Shah: Yeah that's what exactly I wanted to ask. So that is now closed?

Aditya Rao: It's closed and we have no other Right of Recompense claims.

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

Pawan Kumar: What would be the break up between the ERW and CDW tubes right now?

Aditya Rao: In terms of revenue we would roughly have a break up of 10 crores coming from ERW and 4 crores coming from CDW.

Krishna Prasad: That is per month. So roughly around 60:40 we can say.

Pawan Kumar: And we expect CDW to become 60% is it?

Aditya Rao: Yeah that is accurate, we expect CDW to become 60% of the total revenue of the tubes business from where it is at right now which is about 30%.

Pawan Kumar: Can you give us a margin differential between ERW and CDW if possible?

Aditya Rao: It quite massive, ERW is typically at close to about 6-7% and CDW is I will say about 6% and 15%.

Pawan Kumar: The EBITDA or contribution?

Aditya Rao: Contribution would be the accurate number, contribution after working capital cost. You can use the number contribution, yes.

Pawan Kumar: So fixed cost would not be included, right?

Aditya Rao: No. Fixed cost would not be included.

Pawan Kumar: Okay. Regarding your tubes business, who would be the customer? Would it be majorly focused on – auto component manufacturers how much of revenues would they be giving us and how much are we getting from construction?

Aditya Rao: You are right the majority of the revenue is automotive in nature and also process industries and engineering companies such as Thermax and other and Larsen & Toubro who are our customers. Also solar optical tracking companies also source some of these but the combination is structural, structural for infrastructure, automotive and general engineering. The majority is automotive. The precise break up, I will provide that for you.

Pawan Kumar: Rough break-up?

Aditya Rao: Rough break-up I would say, out of the 160-165 crores which we have done in the last financial year, I would say 75-80% is automotive or automotive ancillaries.

Pawan Kumar: Okay. Sir regarding special grade steel which we are talking about which is giving us higher margins of 7 to 8% right now, what is the difference between a cold rolled sheet that we used to produce and this particular special grade steel which is giving us higher margins?

Aditya Rao: So the legacy business of the company, what the company started off doing was conversion of HR steel of CR steel basically you make it go through a process of pickling, skin passing, cold rolling itself and annealing to make that happen. Now what the special grade steel is very different because it's a special alloy steel with certain properties. It's actually utilized in a very niche applications, so manganese alloys, chromium alloys, so they will need to use capital assets which are markedly different which is why we need to do some CAPEX from the hydrogen annealing point of view. And the margin that you get is also a function really of precisely controlling the physical characteristics, so there needs to be some line balancing investments also they need to take place. So the difference is in end use. Normal CR steel is used for generic uses whereas special grade steel is used for high-end engineering applications by automotive companies, by other engineering companies as well.

Pawan Kumar: Who would be the competitors for this particular category?

Aditya Rao: There is only one, Tube Investments. They do about 5000 tons of this every month which is close to about 40 crores.

Pawan Kumar: And we have a capacity of 750 tons per month?

Aditya Rao: Once we set up this special grade capacity our capacity will be close to 2000 tons a month. We will still be less than TI but it's an investment that works that well which we fully expect it to, then we would reserve the right to invest further in this.

Pawan Kumar: Presently how much are we producing, special grade steel?

Aditya Rao: About 500 tons a month, very less.

Pawan Kumar: Any specific entry barrier in this business?

Aditya Rao: Yes there are. Narrow pole rolling which there are very few companies which are left, that is a requirement and also as I said hydrogen annealing which we are adding and CR slitting capabilities, auto gauge. There is some capital equipment and also the fact that anyone who wants to get into it now would also need to set up narrow cold rolling and it's a depreciated asset for us but for someone else who wants to set up right now it might not be worth his time.

Pawan Kumar: Okay, so it is a highly capital intensive kind of CAPEX you are saying.

Aditya Rao: For a company that is trying to enter into it now, new. But since we have a lot of the core elements and what we need to do is add certain other capabilities which allow us to cater to this business, for us it isn't extremely high capital. As I mentioned we expect only to spend 10 to 15 crores on this business after Board approval will be given.

Pawan Kumar: Going forward overall your legacy business how much growth you have expected? Any indicative figure you can give?

Aditya Rao: I think from revenue point of view you have to see where it is. So the cold rolling business as a whole ranges between 270 to 300 crores. We don't see that increasing in size by a large amount over the next few years. By the percentage number obviously it will come down. As it happened, 10 years ago it was 100% of our business now it's about 20%.

Pawan Kumar: EBITDA margin wise what can be expected?

Aditya Rao: It will remain in low 5 to 7%. It is going to remain a low margin business. With special grade steel we can bump that up obviously but that will be differential revenue, any differential that we add, if we add about 24,000 tons a month we would probably look at adding between 100 to 150 crores so that 150 crores will add up 15% but the older 200 odd crores will remain low margin.

Pawan Kumar: Okay 100-150 cores you are speaking about special grade, right?

Aditya Rao: That is correct, yeah.

Pawan Kumar: Special grade EBITDA margin would be around 12%? Contribution margin you said 15%, right?

Aditya Rao: That is correct so I think 10 to 11% at least you can take it. It could be substantially higher than that.

Moderator: Thank you. Next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda: Sorry I joined late, may be could be a repetitive question. Just wanted to know your thoughts on how do you see the FY16 standalone revenue number and the margin after a good improvement in FY15?

Aditya Rao: We currently expect our revenue to grow over the next few quarters so if you were to compare Q1 to Q1, Q2 to Q2, the year-on-year comparison growth rate will continue to persist. We are not projecting a decrease in revenue anytime soon for the standalone company. And consolidated sales also we a quite….

Pritesh Chheda: What pace is what I was actually looking out or the size of the number which is let's say about….

Aditya Rao: I would not want to give guidance but I can say that double digit growth is going to continue.

Pritesh Chheda: And on the margin side?

Aditya Rao: On the margin side that is I can definitely speak a little bit about that. I think we are investing only in to high margin businesses. Any revenue growth that comes in will come in only from high margin businesses and our metric for that is essentially businesses with more than 15% margin and also return on capital employed of (+20%). So margin growth will continue to persist.

Pritesh Chheda: Which means it's a differential margin of about 600 basis point on the incremental topline?

Aditya Rao: I think that's right.

Pritesh Chheda: And second what is the size of the PEBS business that you are looking at?

Aditya Rao: I will not be able to unfortunately comment on the PEBS business. We have filed a DRHP and we are expecting SEBI's response, so we will not be able to say anything about PEBS which is not mentioned in the DRHP.

Pritesh Chheda: What is the back log that you are running?

Aditya Rao: That also I am told I am not able to provide for you. I do apologize. I think I wish I could give you guidance but I think the ICR guidelines are very clear that no information outside the DRHP can be given.

Pritesh Chheda: Okay no problem. And lastly do you see tailwinds on the drop in steel prices or it's a pass through in your opinion in your business line?

Aditya Rao: For us it's a pass through. This care we need to take to ensure that we don't hold on to too much inventory in this but the ramp in the steel price in the last year has not affected us either from a margin point of view. From a revenue point of view yes, there has been about a 7-8% impact I would say because of the fall but from a margin point of view there is very minimal impact.

Pritesh Chheda: Okay. And last year I was just checking your balance sheet, lot of cash which was generated has been actually utilized in the Balance Sheet especially on the Working Capital side, any thoughts there? Anything you want to highlight?

Aditya Rao: If you look at our Balance Sheet we have seen lot of working capital increase go up in the end of the 4th Quarter specifically March 31st but as I was mentioning for the previous question, this is a snap shot picture because we have got 2.5 month operating cycle when we scale up revenue and the revenue scale is as high as it has during the 4th Quarter you will have an impact, a movement, a temporary impact on working capital. As of right now we have come back to our Q2 and Q3 end levels of that and we are quite comfortable from a cash flow point of view.

Pritesh Chheda: Thank you and all the best, thank you very much.

Moderator: Thank you. Next question is from the line of Ashish Kacholia from Lucky Investment Manager. Please go ahead.

Ashish Kacholia: Good morning and congratulations on a good set of numbers to the team. My question is basically Q4 seems it seems to be a little better picture compared to the earlier three quarters, so do you also feel that there is some step up in the economy and demand levels.

Aditya Rao: I think we have done well in the Q4 across all of our business verticals, so that is accurate. And I think from an EBITDA profit point of view all our business divisions have grown. Going forward we expect our investments into new capital assets to start generating further increases in revenue. So we are confident of further growth, we are confident of further margin expansion. As far as the market is concerned we have now diversified, we now have engineering revenue and services revenue coming in from the US, we are shipping security solutions businesses, Wedge Barrier Systems to the Middle East, we have operations in Africa now so we are diversifying ourselves from our exposure to a purely India based viewpoint, so considering that we are going to see I think over the next few years if not over the next few quarters definitely next few years, investments into infrastructure, investments into general engineering I don't anticipate a demand situation. I think we have bottomed out whatever malaise there was in economy that is bottomed out. We are reasonably confident of further growth; we are not depicting a decrease in revenue in any of our businesses.

Ashish Kacholia: So YOY at the same time last year versus this year you have at a gut feel level feeling much more positive?

Aditya Rao: I would say yes.

Ashish Kacholia: My second question is pertaining to the systems where would be needed to build a solid business how good are our IT systems in terms of internet enabling, Customer Relationship Management, ERP, Supply Chain Management? Is there scope for us to improve our IT systems and these kind of investments to drive efficiencies and returns on the assets that you have already you have on the ground?

Aditya Rao: A very important question, one has not often brought up but we have a very robust set of internal controls and systems. For all the companies we have stat auditors who are quite tough they include Deloitte for PEBS and internal auditor is Ernst & Young, even for PIL we have Mr. Ram Babu as the auditor and he is extremely well-regarded as a tough auditor. We have also won an award for our compliance and statutory and also corporate governance. Our IT systems are quite robust. We run ERPs across all of our businesses. Pennar Industries runs SAP, PEBS runs Oracle and we have implemented them years ago, it’s an ever improving process so we discreet IT teams and also third-party systems maintenance which ensures that all our transactions, all our books are closed on, ERP are closed on Oracle and SAP. So we absolutely will need to modernize further but as of right now we have very good capabilities in our IT systems both hardware and software and we also have a very good connectivity with all of our branches and also with the customers in the US. We do a lot of engineering work in the US. It's a very high margin business and we have dedicated lines, dedicated connectivity options as well, so I would say that we have a pretty robust IT architecture.

Ashish Kacholia: Your suppliers and customers both can see into your systems and kind of tune their requirements accordingly?

Aditya Rao: We have not gone up to that level as yet, SFDC is a CRM that we run but we don't currently open that up to our customers to see. It is more of an in-house capability for us to automate the sales process. That's a very good point, it is something which we have …..

Ashish Kacholia: That's for future, right?

Aditya Rao: It is absolutely in the future, in fact we are looking lot of automations in terms of giving our customers clarity and transparency into how we work and where and what stage their orders are.

Ashish Kacholia: As far as that engineering services business is concerned you had mentioned fairly aggressive target, so is that progressing as per your earlier expectations or below it or above it?

Aditya Rao: It is expanding well.

Ashish Kacholia: As per your earlier expectations?

Aditya Rao: More or less in line, I think.

Ashish Kacholia: More or less in line with your expectations.

Aditya Rao: Correct.

Moderator: Thank you. The last question is from the line of Jagdishwar Toppo from Axis Capital. Please go ahead.

Jagdishwar Toppo: I have two questions, one is your cash payback from Railway, and solar segment how is it vis-a-vis other segment, if you could throw some light on that? What I wanted to understand is it in line with your 60 or 70 days receivables that you have the number. So can you please throw some light on that?

Aditya Rao: The business is there are three customers segments for what you have mentioned. For solar it is Solar Developers, for Railways it is one is ICF and RCF and BML, the coach companies and for the third one is the wagons. We book for solar on LC base models. We don't extend credit to anyone except to companies we know very well such as Larson & Toubro and others who we have had decades of working relationships with them. So we do not have a major issue as far as receivables are concerned on that business. ICF is probably best in class in terms of payments. We have never had defaults, we never had write-offs and those kind of things. So on an average we maintain about a month or a month-and-a-half of receivables and that has been consistent and constant throughout our interaction with them and it is continuing. For wagons a lot of the wagon manufacturers we are very careful. We work with the major ones, Texmaco, BESCO and others and we maintain, if not secured payments very good payment terms with them so I have no receivables from Texmaco which are not paid or anything like that. So we are quite happy with the way the systems and projects business works on cash flow basis. If you were to ask me I would say slightly better than the rest of the group.

Jagdishwar Toppo: My second question, your strategy seems to be right you are focusing on high growth business, high margin business but if I see return on equity, after doing so much of effort and all those things return on equity is still 10% so you have some strategy in your mind where you want take in three years' time, if I say 36 odd crores consolidated PAT divided by whatever 350 crore of net worth. So it's still 10%, so what thought process the management has to take it to a reasonable level? Do have some strategy on that?

Aditya Rao: We absolutely do. I think our target is 100 crore PAT and we have very aggressive plans to go ahead and meet that target. How that will be achieved is a well-articulated plan. The growth of high margin businesses tends to drop a lot of margin down to EBITDA. Typically once your fixed costs are covered any additional revenue you bring in that the variable margin at which you do that tends to drop down to your EBITDA minus any fixed cost increments which are not very substantial. So for us the way to grow Return on Equity, Return on Capital Employed is what we typically measure more often but Return on Equity itself is an important number. We believe that ROCE should be (+20%) – (+25%). Return on Equity for us to improve it is a simple question of improving our profitability, our PAT and our PAT number grows when our EBITDA number grows. Our EBITDA number will grow when we are able to scale and get more revenues. So even an addition of about say around 500 crores from where we are has a very disproportionate impact on our profitability because if we are adding that at a high-margin then you are looking at effectively a profit increasing at very high rates for a growth rate and revenue which may be not more than 20-30%. So that is our plan, add 20-30% more in high margin businesses and the profit will take care of itself and so should return on equity.

Moderator: Thank you. I now hand the conference over to Mr. Aditya Rao for his closing comments.

Aditya Rao: Thank you for your attendance and thank you for your questions. We intend to continue growing this company further over the next few quarters and if there are any other questions and if any one of you would like to visit us in our engineering centers and manufacturing plants, we will be glad to facilitate that. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Pennar Industries that concludes this conference call.

(This document has been edited for readability purposes)