"Pennar Industries Limited Results Conference Call"

October 13, 2011

MODERATORS: **MR. NRUPENDER RAO – CHAIRMAN, PENNAR INDUSTRIES LIMITED**
MR. ADITYA RAO – DIRECTOR, PROJECTS, PENNAR INDUSTRIES LIMITED
MR. RAVI RAJGOPAL – VP, F&A AND COMPANY SECRETARY, PENNAR INDUSTRIES LIMITED
MR. GOUTAM CHAKRABORTY –EMKAY GLOBAL FINANCIAL SERVICES

Moderator Ladies and gentlemen, good day and welcome to the Q2 FY12 results conference call of Pennar Industries Limited hosted by Emkay Global Financial Services. We have with us today Mr. Nrupender Rao, Chairman, Mr. Aditya Rao, Director, Projects and Mr. Ravi Rajgopal, VP, F&A and Company Secretary. As a reminder for the duration of this conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Goutam Chakraborty, Research Analyst of Emkay Global. Thank you and over to you sir.

Goutam Chakraborty Thanks Mellissa and good evening everybody. Thank you for joining us today. I would like to welcome the management of Pennar Industries Limited and thank them for giving us the opportunity to host this call. Without taking much time I would now like to hand over the call to Mr. Rao. Over to you sir.

Nrupender Rao Good afternoon everyone and thank you for joining us today. We are living in a little difficult times I think. India's industrial output growth remain moderate in August and from all the information given by the government the industrial index and industrial production has come down, maybe 5.6% as compared to 8.7% last year. In these difficult conditions I am pleased to report that on a consolidated basis Pennar Industries and its subsidiary Pennar Engineered Building Systems recorded a good growth relative to the market and we achieved consolidated sales of 295 crores as compared to 274 crores in the same last year representing approximately 8% year-on-year growth. Sales growth for the first half of the year was 11% compared to last year. The quarter growth in sales was primarily driven by our subsidiary, Pennar Engineered Building Systems, the pre-Engineered building business. Despite being a traditional slow quarter for building construction, PEBS continued to show robust performance and gain market share. My colleague Aditya Rao will elaborate on the performance of PEBS after I am done. Overall the consolidated sales volume remained relatively flat at 43,600 tons and the consolidated EBITDA grew by about 2% to Rs. 37 crores and margins have been under pressure due to increased interest costs and also increased employee cost. We are optimistic about the future too and we expect to increase volumes in our core engineered products through enhanced capacity utilizations and we are putting up a new plant which is almost commissioned for making tubes and also making heavy fabrications. In these two segments which are new to us, we expect to gain sales volumes during this next quarter.

In the PEBS segment, Pennar is already positioned as a preferred vendor and we are focused on capitalizing on this strong market position and attractive growth dynamics of the Indian 3.42 sector.

Overall I want to end with a note of confidence that on a consolidated basis we improved our performance and we definitely want to strive to build up on this and, of course, we hope that the economy improves. I would request my colleague, Aditya, to talk to you.

Aditya Rao Thank as well to everyone who is joining us today. It is a pleasure to give (inaudible) performance for the quarter and for the half year. As Mr. Rao mentioned PEBS has seen a pretty good quarter where we have seen gross sales of 64.34 crores as it was 58 crores last year, an EBITDA growth of about 79% and a PAT growth as well of about 58%. Overall the business has been strong and this we have been able to continue building our order book to an amount of about 215 crores currently. And from our inception about two years ago, from January 2010 till now, in the last six quarters we have been growing aggressively. Every quarter we have been able to grow our order book, we have been able to generate a lot of marquee clientele, we have completed orders and we have been profitable right from the 1st Quarter onwards but we have been able to steadily consistently grow our margins as well over the past few quarters. As mentioned in terms of growth the PEBS segmented reported 57.2% growth in volume, price realizations themselves have also improved by about 8.2% compared to last year, and EBITDA increased from Rs. 3.9 crores in Q2 FY11 to 6.9 crores, representing a 79% year-on-year growth.

We have continued to build a very strong order book consisting of some marquee clientele, the 'Who's Who' of India's infrastructure and construction industry. Very recently we have received contracts from Reliance Retail, the first retail warehousing chain that is being built in India, from ITC Nepal for a tobacco factory, and from Toyotsu, for a rare earth refining factory. As I mentioned our order book remains strong, it is over 215 crores and for the year in question we expect to continue this growth.

With that I would like to hand it back to our Chairman.

Nrupender Rao Thanks. I would request any questions that are there or clarifications we could give, then on to the Moderator.

Moderator Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question is from the line of Giriraj Daga from Nirmal Bang. Please go ahead.

Giriraj Daga You said the consolidated sales is 43,000 taken in tons. And if I work out the number your EBITDA comes above Rs. 9000 per ton. So what is the outlook on EBITDA for the second half of FY12?

Nrupender Rao The overall EBITDA for this quarter was 12.67% and we would have loved to improve this EBITDA margin but considering the market conditions and the stretch in the market place and little downturn in the economy, we would hope to retain that and, of course, it depends on the product mix, if we increase more of fabrication and more value-added, there could be some improvement but we do not see any great change in the EBITDA margins for now.

Giriraj Daga What is the segment wise sales revenue in percentages, engineering, heavy engineering and infrastructure, if you can just highlight that.

Nrupender Rao Very briefly, engineering itself has cold rolled steel which is a commodity product and the engineering products, like the auto or the components and the tubes and all that. So we have separated that. So the engineering-wise broadly if you indicate, the sales were 66 crores and the EBITDA margin was around 10%, that is cold rolled steel. The second item is engineering products which is 53 crores and 11.5% is the EBITDA margin. The third is heavy engineering which is mostly railways for us, it was about 41 crores and we had a margin of 20%. And the infrastructure consists of buildings, electrostatic precipitators, sheet pipes and we also made an entry into solar panel and my colleague will explain briefly, and fabrication and road safety was about 66 crores and about 13% EBITDA. So as a combination of all this for the net sales of 238 crores, this is standalone and we have done 12.67% EBITDA margin.

Giriraj Daga What is happening in Karnataka at this point of time? The steel prices have increased I believe because of the shortage.

Nrupender Rao As far as Karnataka, you are referring to JSW. We buy steel from JSW that is Karnataka plant, from the JSW also from their Tarapur plant and we also buy it from ISPAT which is now a part of JSW. Actually Jindal supplies us from three different plants. For example, for our pre-engineered building division they supply products from either the Tarapur plant or the Dolvi plant, that is ISPAT. So in addition to this we also buy from Tatas for our Tarapur plant, we also buy some special section from Essar and also from SAIL. So we have a distributed list but as far as Pennar Industries is concerned they do buy a significant cart almost 30-40% from Jindal. Now Jindal, if you remove these two plants, one plant itself may be 20-30%. So as of now Jindal has been giving us the preferred status and supplying whatever orders we had. So we have not had any effect so far as far as the raw material is concerned. But considering what we read in the papers and knowing that there could be a possibility of some reduction in their production we have requested them to supply more from ISPAT and more from Tarapur and we also contacted Tatas and others, so to supply. So to summarize it, we do not expect any effect on our production because of the problems that JSW is facing.

Giriraj Daga I had two questions for Aditya. One is, the order book of 215 crores, this is at the end of 2nd Quarter, right?

Aditya Rao The order book for 215 crores is our current and latest order book size which will be addressed over the next two quarters, some part yes, but there are some longer lead time items.

Giriraj Daga There is some sudden substantial jump in other income, if I see standalone, if I see consolidated. The consolidated basis substantial jump done during the quarter. So any particular item which is actually put in other income?

Aditya Rao For PEBS, we also derive from the state government a sales tax benefit and that has started accruing now so there you have seen that entering the P&L account.

Giriraj Daga But that would be a regular item I believe so?

Aditya Rao That is correct, yes.

Giriraj Daga All the best.

Moderator Thank you. The next question is from the line of Ankit Shah from SPA Securities. Please go ahead.

Ankit Shah My question is a continuation of the previous one, as you said that you are stepping up your raw material requirement from the Tatas and the ISPAT. So I just wanted to know if there would be any increase in the freight costs?

Nrupender Rao ISPAT is not very costly because we are from Dolvi in Maharashtra and to get it from Dolvi in Maharashtra near Bombay and from Karnataka, there will not be any significant difference. And moreover the ISPAT plant also because it belongs to Jindal so whatever price Jindal was delivering to us, they are delivering from ISPAT also. And Jindal's terms of delivery were not delivery at their plant but delivery at our plant. So the transportation from their plant to Hyderabad is their responsibility. So as of now also they are giving us a particular price and they choice to supply either from Vijayanagar or from Dolvi or from Tarapur.

Ankit Shah My next question is to Mr. Aditya. I would like to know that you recently bagged an order from ITC.

Aditya Rao That is right.

Ankit Shah Sir, what would be the size of that order?

Aditya Rao Let me tell you a little bit about the order first. This is for ITC Surya cigarette tobacco plant and it is the largest private-sector enterprise in Nepal, it is the subsidiary of ITC Limited India and British American Tobacco. The project is an India and Nepal and UK joint venture located in Pokra, Nepal. The entire project involved the erection of three buildings spanning an area of 8800 sq. meters and the buildings are going to incorporate our double lock standing seam roofing system which is, of course, a 100% **weather type 14.16** model. It is an eight month duration project and the value of the project is about 6,10,00,000.

Ankit Shah And the Reliance Retail one?

Aditya Rao The Reliance Retail project is for a lot of warehouses. L&T was company that got that and we work with L&T so we have been subcontracted the building portion of the order. The size of the building portion which we will be executing is about 22 crores and the total square footage is about 40 lakh square feet.

Ankit Shah One more question, it was regarding the expansion at PEBS Pennar. We are also planning to set up a facility in Rajasthan?

Aditya Rao That is correct.

Ankit Shah So what would be the funding mix or the total size of the project?

Aditya Rao The expansion is Rajasthan is essentially to enter the north market. Currently a lot of our orders sourced from the south, but while we have executed in the north, we have built a formulations laboratory for Dr. Reddy's in Himachal Pradesh. We have mostly not addressed the north. So we would look to actually build up equivalent capacities to what we have built up here in the north. And this is something that we have envisioned for next year. So we are looking at a project expenditure of something approaching 40 crores.

Ankit Shah This would be about 60,000 tons capacity?

Aditya Rao This would be about 30,000 metric tons expandable, of course, as we scale up operations in the north.

Ankit Shah The funding would be?

Aditya Rao The funding will primarily be through internal accruals and a slight increase in debt but we do not envision increasing our debt profile. At this time around the next year the debt profile will not be increased by any amount.

Ankit Shah This would be coming in by next year?

Aditya Rao That is correct.

Ankit Shah Thank you so much.

Moderator Thank you. The next question is from the line of Jignesh Kamani from Nirmal Bang. Please go ahead.

Jignesh Kamani Just wanted to know when we increased our capacity from 30,000 to 60,000 in the pre-fab?

Aditya Rao The pre-engineered building division increased its capacity from 30,000 to 60,000 over the last two quarters of the last financial year. The new capacity came online in January of 2012.

Jignesh Kamani So then what was the reason that even though it was fully operated in the Q1 and Q2 also, why is the interest cost has been jumped up particularly in the pre-fab division from 19 million to 35 million?

Aditya Rao The reason for the increased interest cost is, it does not really have too much to do with the term loan. Our term loan has not increased by a lot, it is only increased by about 5 crores now as opposed to the last balance sheet. The increase is primarily because we have working capital limits, we have been scaling up production as such and interest rates have been rising at a very steady rate.

Jignesh Kamani But I am comparing, compared to this Q1 only, I am not comparing with last year. So within three months, absolute interest has increased for pre-fab from 19 million to 35 million.

Aditya Rao Most of the increases in terms of interest cost have been primarily in the last few months. We have also re-financed our term loan to an FCNR which gives us foreign currency denominated fully hedged loan for our term loan at about 10.5%. Doing this will lower taking a hedging contract and the cost for those hedging contracts have been reflected in this quarter. So you will not see sustenance of that level of interest cost but this is inclusive of the hedging cost which is why it is high.

Jignesh Kamani What can be that quantum of hedging cost?

Aditya Rao It is about 1%.

Jignesh Kamani I was working out the standalone balance sheet also, even though revenue has not increased, our receivables has increased compared to last year, so any indication of some tightening of credit cycle through our clients?

Aditya Rao This is for PIL?

Jignesh Kamani If you take the standalone numbers, our revenue has not increased but our receivables has increased drastically compared to last year.

Ravi Rajgopal That increase has taken place and we are taking steps to tighten the take for recovery of that loan. If you see the number of days, etc., in this market it has gone up by about three days more. So we have to tighten that one further and we have to reduce that.

Jignesh Kamani So we expect a further deterioration in our working capital cycle in the PIL?

Nrupender Rao We do not have that one.

Jignesh Kamani Any outlook on the railway order, whether the railway has announced the order as of now?

Nrupender Rao Railways we expect a little buoyancy in this 3rd and 4th Quarter because the 2nd Quarter somehow there has not been much movement on the railway side. Everybody knows that there is wagon shortage and the railways should order more wagons but because of some changes in the top there, and the finalization of the orders did not take place and as a result also due to some other reasons, some of the wagon builders went to Court and all that on some prices. Anyway, because of that the amount of orders are little curtailed during the 2nd Quarter, we expect that this to go up in the 3rd and 4th Quarter because it is one of the important segments for us and we definitely hope that should happen. And while on the subject there are two new segments also on the solar energy that we have developed, Mr. Aditya will explain.

Aditya Rao To brief you on our entry into the solar sector, we are not manufacturers of solar modules, we are also not executing solar power projects per se, but because of the growth of the JNNSM, the National Solar Mission and the Gujarat State solar policy, a lot of EPC players are now setting up capacities. So over the next one year there will be a tremendous amount of solar projects which will be executed. Where we come in is that we are one of the few people with the scale and the capacities that can provide the civil engineered structural framing systems of the solar modules, effectively the steel framing systems on which these solar modules sit and this is a very good business and it is a good profitable business as well. We have made an entry in the last couple of months but we are working with all the major EPC players, we have met with all major solar companies including Moser Baer, Tata, BP Solar, we are working with Indian projects, we are working with L&T, we are also working with several other companies who are executing solar power projects. We expect this division specifically to provide a lot of growth for us going forward.

Jignesh Kamani In railway, I think there was a plan to announce 18,000 wagon order for entire year.

Aditya Rao Before I give it over to Mr. Rao to answer the railways question, the other duration we were looking at is in our heavy fabrication division. We have entered the wind tower fabrication business as well and we have received orders from Sriram EPC for some wind tower fabrication. So that is something else that we expect a certain significant revenue to accrue to the company from these divisions. I will now give it to Mr. Rao for the railways question.

Nrupender Rao You wanted some further clarification on the railways.

Jignesh Kamani Earlier plan was that railways will announce close to about 18,000 wagon this year. So whether railway is sticking with that order or this has been curtailed down right now?

Nrupender Rao It has not been cut down actually because as I told you for some reasons the 2nd Quarter was slightly held up because of some legal and other issues. We are feeling that 3rd and 4th Quarter the railways should release the orders to the wagon builders who in turn will release orders for us. So we are optimistic about the railways growth now. We are talking of regular railways. We are not talking of the new thing like the corridor and all that, that will take some time.

Jignesh Kamani One question to Aditya. As you mentioned that we are planning to increase our capacity in pre-fab, setting up in Rajasthan also with CapEx of almost 40 crores. But I suppose in PEB we are hardly generating money so the entire CapEx has to be borne by our parent PIL.

Aditya Rao Well I would disagree with PEB not generating money.

Jignesh Kamani I am talking about the cash flow because since we are just starting up so probably it may take time?

Aditya Rao Even in terms of our cash flow basis I think last first operating year itself we generated in excess of 10 crores in cash profit at this year we expect to do significantly better than that. I think if the numbers, if you see the reflection as well, a PAT growth has been almost 58% on the quarter-on-quarter basis and in this financial year even on a top-line and bottom-line basis we expect to grow in access of 70%. So certainly I think you are looking at in access of 15 crores of money being generated in the company itself on a cash flow and this is on a conservative basis assuming we hit our targets. So there is no further infusion of cash envisioned from the parent company to the subsidiary. The expansion will be, as you know, projects are implemented in a time bound manner, it takes 6 to 7 months, it takes a year to complete projects. The CapEx also will be flown according to that. So if you look at the next two years in terms of a way to fund this, you are looking at the total cash profit generating by PEBS alone in access of 20 crores and those are very conservative figures. So there is more than enough muscle in PEBS itself to finance the expansion and as of this point there is no further investment by Pennar Industries envisioned in Pennar Engineered Building Systems.

Jignesh Kamani Since PEB is not a 100% subsidiary, so will the promoters also include the similar amount to maintain the stake or how is the future in that case?

Aditya Rao We have no plans to increase the equity in Pennar Engineered Building Systems right now.

Jignesh Kamani What I am saying is, 40 crores investment is required and if PEB, our parent team is investing some fixed amount, so will the promoters also infuse their pass equity to maintain the stake?

Aditya Rao With due respects, what I am trying to say is that there is no further infusion of equity envisioned from Pennar Industries to PEBS and there is no further increase of equity envisioned in Pennar Engineered Building Systems. All capacity expansions will be financed through a mixture of internal accruals and debt and a strong cash flow through the next couple of years will ensure that we can meet any capital expenditure requirement inside the company and with an expansion of debt. Our current long term debt is about 30 crores, with a moderate increase we will be able to finance expansions.

Nrupender Rao During this year and next year, PEBS will produce a cash flow of close to 50 crores, so that should be enough to provide the equity part.

Jignesh Kamani Thanks a lot.

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

Sachin Kasera Regarding this CapEx from PEB, you mentioned that the cash flow should be sufficient. But from what I can see the current working capital is also around 50-55 crores.

Aditya Rao That is correct.

Sachin Kasera So the type of robustness we are seeing in the revenues in the next few quarters, so do you think this will be sufficient to fund both the CapEx and the working capital or we envisage that the cash flow we utilize for the CapEx or working capital we will be taking additional debt?

Aditya Rao Let me clarify again on the working capital level right now. We currently have a term loan of about 25 crores and we have drawn on further loans of about 10 crores, so that brings out total cash credit working capital to about 35 crores. We do have non-fund based limits like BGs but they are not a traditional working capital measure, they are more as risk management contingency measures so the company can get the last bit of margins that is _____26,02. So our total working capital finance is 35 crores. Going forward we intend to bring in a lot more optimization into it. Working capital goes to finance both variable cost and fixed cost. As we are scaling up turnover, if you double turnover it does not mean that your working capital requirements are going to double. You will get more efficient with this. And as I mentioned we are looking at a total amount of profit in PEBS for the next couple of years on a much larger scale. We did 10 crores cash profit in the first year on a much higher fixed cost basis. We are using the same fixed cost to perform at a much higher level. We are expecting our turnover this year to cross 250 crores and even on a conservative basis that will be in an EBITDA of more than 22 crores, more than 23 crores. So I guess what I would submit to you is that we have a CMA data prepared for the next 2-3 years, we have an idea what our working capital requirement is going to be, to get us that extra growth and our debt is also rated as A by CARE. So we have the ability to both expand our working capital finance in order to finance future growth and also set up new capital expenditure. If we need to draw on term loans and working capital limits we will take that decision when we need to.

Sachin Kasera Second is regarding the working capital requirement on PIL. If you see for these six months the sales are up by 2-2.5% and the working capital has gone up by almost 60-65, net current deficit are up from 242 to 305 crores. I think Mr. Rao, there was a mention that you are trying to reduce, so would you throw some more light as to how exactly you want to plan it and what level you intend to bring in down?

Ravi Rajgopal Basically the increase has come mainly because of our increase in the receivables which already we have said that we are tightening that one. It is about two days more than whatever we had. We are taking steps to control that one and that is the main reason for which it has gone more.

Sachin Kasera Actually if we see the inventories have gone up by 23-24 crores.

Ravi Rajgopal Basically around 249 crores is the net current asset as compared to 208. It has come more by your sundry debtors and receivables basically and also we have made some advance payment for income tax.

Nrupender Rao The net working capital has gone up by about close to 20%. You are right there has been an increase. And a little more than 10 is accounted for by the increase in receivables. As we said because of the difficult market conditions especially in the auto sector and all that, even some of the good customers are a little more time is there, so couple of days more has gone which went actually 10% more. We are talking of earlier 35 days and now it has gone to some 38 or something like that. It is still a little below 40. Then the other dimension has been that because of some increase in raw material which we have been keeping and that has added to our inventories. And stainless steel we have kept a little high, extra inventory but unfortunately the railways orders did not fructify to the extent we wanted so as a result your observation is very good actually but there has been an increase in inventories as well as increase in receivables. But we are hoping for improvement in the receivables front so that we can tighten up and, of course, inventories will straighten up now.

Sachin Kasera Secondly the price list mentions about the volume growth in engineering products in infrastructure. Could you just throw some light what was the volume growth in cold rolled steel and heavy engineering products?

Nrupender Rao Actually I will give you a breakup of the different things. What we have done is engineering also we have broken up into cold rolled steel and engineering. So if you look at cold rolled steel, for example, if you look at net sales value cold rolled steel we give 66 crores and engineering products which is basically tubes and components and profiles is about 53 crores and the railways was about 41 crores and the infrastructure which consist of buildings, electrostatic precipitators, sheet pipes, solar panels, fabrication and road safety, came up to some 66 crores. That is how the total amount was up to net sales value of 238 crores. That is the breakup of the different divisions and even EBITDA margin-wise cold rolled…

Sachin Kasera I am talking of the volume figure if you could give me.

Nrupender Rao Cold rolled steel is 13,000.

Sachin Kasera And what was the comparable figure last year?

Nrupender Rao Last year it was 16,000. That cold rolling was a little down because of auto sector we supply largely. The engineering was 9900 as compared to last year's 9600 that has been as such and railways this 2900 as compared to 3000 last year. As I explained earlier we wanted to increase the railways but the orders were not fully forthcoming. And when it comes to infrastructure we did 10,000 tons compared to 9800 last year. That is the breakup of the four different segments.

Sachin Kasera For the second half what is the type of volume growth that we can look at going by the current severity of things. Can you at least look at a 5-6% volume work across all segments?

Nrupender Rao Over this first two quarters we definitely want to look at 5-6% growth especially even if some cold products get affected, as my colleague Rajiv told you, we have entered two new segments of the structures for solar power plants and also for wind energy structures. And also we have just now commissioned the cold drawn welded tubes which are specialized tube that go into the auto mobile sector. So really speaking thereafter three new products which we are entering the market, we already entered but going to develop these markets in the next two quarters. In addition to beating any shortfall which may arise in these auto sector, we definitely hope to go up by maybe 5 to 6 or more, our internal target is 10%, but definitely we would like to do that.

Sachin Kasera On the auto sales if we see the commercial vehicle tractor and two-wheeler have done well. The only area where there is a little bit of slackness is on the car side. So do we have a very high dependence on cars that is why auto is also not doing well?

Nrupender Rao See there are a lot of component makers who supply two cars and motorcycles and those people buy from us and those have come down and there has not been that much buoyancy in the truck side also, though you are saying but the commercial vehicles also has taken a dip actually and there is not the same buoyancy which was there earlier.

Sachin Kasera But if we see at least they have been growing in double-digit where of a volumes are up only 2.4%, that is the reason I was saying.

Aditya Rao The auto sector growing in double digits, what we supply that has not been the case in that.

Nrupender Rao Auto sector if we see we did 3660 this quarter compared to 3830 in the corresponding quarter last year. We actually came down and auto components also we could make up but in the other auto like long products and all, there has been a reduction there also. Both components and sheets and profiles overall auto we have been down.

Sachin Kasera Thank you very much.

Moderator Thank you. The next question is from the line of Satya Murthy from Unifi Capital. Please go ahead.

Satya Murthy This question is regarding the guidance that you provided last quarter, it was said that revenues grow at 15-18%, but this quarter we have not seen that kind of revenue growth.

Would you want to provide us guidance on what would be the revenues, the second half of the year?

Nrupender Rao For the next 2nd and 3rd Quarter, just now we had answered the question that we expect to grow by 6% or so, though internal target is 10% but definitely we hope to grow by between 6 and 10% over the first half of the year.

Satya Murthy That is at volume levels. At value terms what would be the growth?

Nrupender Rao On the same figures we talk about volume as well as turnover levels because we do not expect any reduction in the prices. If everything the prices are going to slightly go up. That is for our regular products on the Pennar Industries side but as far as PEB is concerned there is going to be a growth and compared to the 1st Quarter, and I think my colleague, Aditya, will talk to you on that.

Aditya Rao The PEB sector as we said we did declare that the PEB sector would be looking at about 70% growth which would have brought us to about 250 crores for the year. But I think at the half way mark, we have already crossed halfway target mark. We are at 127 crores for the half year. So I think it is fair to say that PEB will exceed its targets so for the second half of the year we would look to grow at about 15% or 20%. So we would retain that target for Pennar Engineered Building Systems that is on the second half as opposed to first half.

Satya Murthy Thanks.

Ravi I am Ravi from Unifi, I have a question. For FY13, considering your capacity expansion your subsidiary company and better outlook on wagon and getting into solar structure and heavy engineering, what would be the kind of goal you would look at FY13?

Aditya Rao I would break that up into two parts. I will answer the engineering part first. For Pennar Engineered Building Systems we have gone on record multiple times with the press that we expect this business division to grow aggressively, this subsidiary to grow aggressively. So as I mentioned this year started 250 crores which is FY12 we will definitely be crossing. Next year we would expect to reach something approaching 350 crores for PEBS.

Nrupender Rao For PIL's growth for the standalone company we would want to grow by 10% over last year. We originally thought of 15% but considering the markets and the auto sector downturn and the little bit downturn on the infrastructure sectors and the railways not going as strongly as we had thought, we still hope to grow at 10% for the year.

Aditya Rao So that would bring the consolidated revenue for both companies up to about 1500 plus.

Moderator The next question is from the line of N Krishna from Newswire 18. Please go ahead.

N Krishna I just want to get some clarity on this FY12 and FY13 revenue growth. Please correct me whether it is 6-10% for FY12?

Aditya Rao It is 1500 plus for FY12 considering a 10% growth for Pennar Industries and Pennar Engineered Building Systems achieving about 250 crores plus.

N Krishna I am talking about the consolidated level, let us put aside the Feb. Consolidated level it is 1500 crores that PIL is expecting, right?

Aditya Rao That's correct.

N Krishna What about the FY13?

Aditya Rao You can take about 1800 crores for that.

N Krishna Thank you very much.

Moderator Thank you. The next question is from the line of K V Ramana from DNA. Please go ahead.

K V Ramana Basically is there any guidance you are providing on this solar opportunity?

Aditya Rao At this point not right now but I can give you some ideas of some of the orders and order books that we have generated. We are looking at 50 crores in the next three months. And further revenue will definitely depend on the off take of these things, how well these projects are implemented, how the new projects that are coming up. But it is safe to say that there is plenty of demand and there are plenty of people rushing to complete this and I think the JNNSM policy has been very popular. So we anticipate that we are only scratching the surface of this. At this point we would not be able to provide guidance figures but order books so to speak is about 50 crores within three months.

K V Ramana But is there any need for providing infrastructure for these kind of fabrication apart from what you have already either in Hyderabad and in other locations?

Aditya Rao The beautiful part is it actually leverages most of our existing lines itself. These are mostly roll form sections and profiles, pressure engineered, of course, so most of the demand is being met out of our Tarapur plant and also Hyderabad plant.

K V Ramana These orders are being handled by PIL, right?

Aditya Rao That is correct, PIL.

K V Ramana Will you also be able to give some idea on the investments made on these facilities to manufacture tubes and the other products.

Nrupender Rao We have already invested, as I said they are nearing commissioning so we invested about 25 crores on this specialized auto tube line and the 25% on the fabrication lines. So both of them are ready, as we have said the fabrication shop was busy fabricating the wind power structure for the EPC Sriram and the other one we have got some initial orders and we are going to go aggressively with all the trials, with all the auto companies. As you know PI is very big in this, I mean tubes they supply a couple of hundred crores of the specialized tubes and, of course, 600-700 crores of these regular tubes. So we are in both sectors but we are looking at a modest turnover of something like 100 crores of tube sales.

K V Ramana Finally how is the pressure on the net margins?

Aditya Rao I am going to divide into PEBS and PIL again. PEBS is a growing company so with our fixed cost we are going to look at scaling up. So as it evident by our results at least, we are consistently improving it. Or at least if you speak on a half year to half year, year-to-year basis we are confident that we can keep improving our margins as far as PEBS is concerned. And PIL as well, as we said the economic situation we are dealing with is definitely too volatile to commit too much on what the margins would be and I think we would look to sustain these margins in PIL.

K V Ramana Thank you.

Moderator Thank you. The next question is from the line of Satya Murthy from Unifi Capital. Please go ahead.

Satya Murthy Given the conditions in the market both the economy and capital market, company has done well to deliver 18 crores or so of profit. You all will generate about 100 crores of cash, CapEx does not seem to pose a challenge to the company's cash flow. In the last three years or so you all have reduced debt to very manageable levels, not much long-term debt. Given the current earnings and the stock price, would this be an opportune time to reduce free float with a buy back so you can accelerate EPS anything turnaround sir?

Nrupender Rao As far as buy back by the company is concerned it is for the Board of Directors to decide and we had a board meeting yesterday and we did not take up this particular item. But meanwhile we have been reporting to the Board the promoters have been buying some shares and picking up, obviously they find it attractive and this Toyotsu acquisition was going on that had being reported alright. But as you rightly put it the long-term debt has been drastically reduced and the company has been conservative in new capital expenditures, which is mostly meeting out of internal accruals and some part to a small internal debt. So overall we are that way geared up much better to meet the challenges of a downturn in the economy. To that extent, therefore, we are not too much concerned or worried about what is happening. We are, of course, worried and concerned that the growth is not happening to the extent that we wanted but we definitely do not see a downturn in our operations. But our PEB company is doing very well and notwithstanding some competition but I think they are doing very well and my colleague, Aditya, will tell you about the new order that he has just received a few days back.

Aditya Rao Toyotsu Earth, a joint venture of Toyota, we are proud to announce that we have bagged the major projects from them for their rare earth and metal processing plant. The raw material extraction will take place in Orissa and the processing plant will be based out of Vishakhapatnam and the process metals will be used to cater to Toyota's hybrid car battery and other electronic devices. It involves installation of two buildings spanning an area of in access of 100,000 sq. ft., and the buildings will be equipped with our approbatory double lock standing seam roofing system for which we see technology branding and know-how from NCI building systems, our technology partner from the U.S. And the duration is for six months and the value of the project is 8.5 crores. This is an order we received about a couple of days ago. So our order book remains strong. I think there is still potential out there in the market and certainly when we look at the consolidated entities, the growth avenues, solar is going to grow, CEW is going to grow and PEBS is going to grow. So the challenge for us will be to probably feed these growing businesses with orders and to sustain existing business lines in order to grow the company's top-line and bottom-line adequately over the next few years.

Satya Murthy Thank you. But I would still leave you with that submission to the Board.

Aditya Rao Absolutely.

Nrupender Rao Definitely, we will communicate that.

Moderator Thank you. The next question is from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

Karthikeyan VK Aditya, my question to you is for PEBS do you see an improvement in profitability?

Aditya Rao Yes. I will come in a little broadly on that. As I told you the team fixed cost that we had last year is more or less in place this year with minor increases in terms of sales team addition and **GIP 48.26** team addition. We are going to be able to do a lot more this year than with the same things. And that has borne out in our turnover addition, our turnover thing as well. They have grown by over 70% in the top-line and almost 79% in terms of EBITDA. So certainly I think the numbers illustrate that our margins can grow and they are growing by a good amount. So we will continue to bring in these improvements over the next few quarters.

Karthikeyan VK The other question I had was more on the parent company. For example, the precision tubes being marketed currently, how exactly are orders being sourced? Could you throw some light on this?

Nrupender Rao The precision tubes that we are making now which are mostly going to the bus bodies and the other auto companies, they are being sourced directly. We have no dealers. We are sourcing directly through our branches. So we have about 300 customers total, out of which about 20 or 30 are for precision tubes and they are being handed directly from our Head Office and from our braches mostly in this case and Chennai, Bangalore, Bombay and Pune. This is what we are doing and now what we are doing is for these specialized tubes that we are going to make because it is going to be more technology intensive, we have formed a special cell in the Head Office itself to look exclusively after these marketing of these tubes. And we are also strengthening the little technology intensive manpower both in Chennai which is auto hub, and Pune which is an auto hub again. So we are by and large focusing this. We are not very active in the north and the east as of now because of transport reasons and all that. So we will concentrate on these two and further improve our product range for the tube sales.

Karthikeyan VK How does the pipe line look currently in terms of orders, what kind of visibility is there for business for this year or for the next year?

Aditya Rao For which one, for the entire company itself or how is it?

Karthikeyan VK I am talking about precision tubes.

Nrupender Rao Precision tubes as we have make an entry in a small area, because precision tubes is worth hundreds of thousands of tons and 100,000 tons TI itself does, it is a very large area out of which we have made a specific niche in the form of bus body building and all that we have gone in. Now with this new area we will be going into specialized tubes like shock absorbers tubes, exhaust tubes and other frame tubes and all that. So market recognizes our presence as a manufacturer of niche tubes, precision tubes and our people have already gone around and they are aware that we are going to manufacture these specialized tubes also. So as we go along we will increase it and we expect a turnover of definitely crossing 100 crores on the tube side and if we can get the markets on the tube side and go to full production, we can go up to 200 cores on the various tubes that we have.

Karthikeyan VK When you spoke about 100 cores you were referring to the next fiscal?

Nrupender Rao Yeah. This fiscal 100, next fiscal we will cross 100 and go further.

Karthikeyan VK And have you already bagged any orders, I would not know if you have already started supplying?

Nrupender Rao Precision tubes, we have been supplying, last year also we supplied about 40-50 crores and this year we are going more. So on that precision tubes which is for bus bodies and all that, that has been going on for some time. Bus bodies, antennas, whenever it is used as a structural number for weight. But as a more specialized tube maker making various precision tubes which can go for shock absorbers, or which can go for exhaust pipes and all that, that we are going to make a serious entry now and already trial orders have been obtained. Trial production also has started and this month we have actually supplied some. So we are on it.

Karthikeyan VK And you would be using a draw bench passes?

Nrupender Rao Yes we have draw benches and we have annealing furnaces, we have all these wet processing type tubes, the whole works.

Karthikeyan VK On the heavy fabrication side, beyond the wind towers, is there any other area where you have been able to bag orders?

Nrupender Rao We have talked to people, the heavy fabrication was not so much for wind power. For example, BHEL, L&T, Thermax, all of them make large pressure vessels. So they need a lot of work which they can outsource to people who can do the bending the very thick sheets and do robotic welding and then machining also. So as we have that facility now we have talked to them and we are in the process of getting trial orders and then we will establish during the next couple of months.

Karthikeyan VK Very best of luck, sir. Thank you.

Moderator Thank you. Sir, we have no further questions. Would you like to make any closing comments Mr. Chakraborty?

Goutam Chakraborty On behalf of Emkay, I would once again like to thank the management of Pennar Industries for having a good discussion and all the participants for joining the call today. Have a great evening. I think you can conclude.

Nrupender Rao Thank you very much.

Aditya Rao Thank you. Thank you for your support Mr. Chakraborty. Thank you Melissa.

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