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“Pennar Industries Limited
Q1 FY '26 Results Conference Call”
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**MANAGEMENT: MR. ADITYA RAO – VICE CHAIRMAN AND MANAGING
DIRECTOR – PENNAR INDUSTRIES LIMITED
MR. SHRIKANT BHAKKAD – CHIEF FINANCIAL
OFFICER – PENNAR INDUSTRIES LIMITED
MR. MANOJ – VICE PRESIDENT, CORPORATE
PLANNING – PENNAR INDUSTRIES LIMITED
MR. K.M. SUNIL – VICE PRESIDENT, INVESTOR AND
MEDIA RELATIONS – PENNAR INDUSTRIES LIMITED**

Moderator:

Ladies and gentlemen, good day, and welcome to the Pennar Industries Limited Q1 FY '26 Results Conference Call hosted by PhillipCapital India Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Please note that this conference is being recorded.

The management is represented by Mr. Aditya Rao, Vice Chairman and Managing Director; Mr. Shrikant Bhakkad; Chief Financial Officer; Mr. Manoj, Vice President, Corporate Planning; Mr. K.M. Sunil, Vice President, Investor Relations and Media Relations.

Before we get started with the Q&A session, we will have opening remarks from the management. Now, I hand over the call to Mr. Aditya for opening comments. Over to you, sir.

Aditya Rao:

Okay. Thanks. Good morning, and thank you for joining us for Pennar Industries Quarter 1 FY '26 Investor Conference Call, covering the quarter ended 30 June, 2026. We appreciate the opportunity to update you on our recent performance and provide insights on our strategic priorities for the year ahead.

As an agenda overview, today's discussion, we will begin with a summary of our Q1 results, highlighting key performance metrics, which is revenue, profit before tax, working capital and major growth drivers. Following this overview, Mr. Shrikant Bhakkad will present a detailed financial analysis, and we will then open the floor for a Q&A session to address your questions.

So the performance snapshot for the first quarter FY 2026, our revenue for the quarter increased by 15.3% to INR845.67 crores, while our profit after tax grew by 21.06% to INR31.96 crores. The key revenue growth drivers that we had was our PEB division, which achieved double-digit revenue growth. However, we had a significant labor supply constraint, which impacted our ability to meet our own internal targets -- our internal plan targets. These challenges have now been resolved, and that positions the BU for a very strong second quarter on the back of our improved capacity utilization.

Raebareli has now been commissioned and has quickly gained capacity utilization and our labor issues, which we faced in the first quarter are behind us. In spite of that, the PEB division has grown in revenue and profitability. And with the new capacity now firing on all cylinders, we expect very good things from this business unit over the next few quarters.

Ascent is the next business unit, has delivered double-digit growth in revenue and profitability. Our order backlog also has now expanded to 54 million, and we expect this growth momentum will continue. So, very strong growth in the last quarter and quarter 2 as well, we expect good growth. For the rest of the fiscal year on the back of a strong order backlog, we're quite confident that this business will continue to do well.

Body-in-White has secured new clients. We had mentioned last time that we now have -- other than Stellantis, we have Hyundai, we have Sears Automotive, we have TIVOLT, Ashok Leyland, and there are several others also that are coming in. So, with our new ongoing capacity expansions coming in, the contribution to revenue for this business in the coming quarters will be quite strong. So, Q1 was good and Q2 again will be exceptionally strong. We expect, on a sequential basis, our Q2 to be far stronger than Q1. Our Q1 itself was growth, 15%, but Q2, we expect will do a lot better.

Engineering services, structural engineering, again, grew quite well. BIM has been a little bit of a laggard, but we have, as I had mentioned in my previous call to you, we have expanded our new business development and our sales capabilities in the US, and we expect that, that will ensure that this business continues to grow. As I previously guided, we project very healthy double-digit growth in revenue and profitability for this business unit in this fiscal.

Hydraulics has performed well in Q1, and is expected to maintain momentum in Q2. However, it's important to talk about this. The new US tariff changes do present a challenge. The initial 25% tariff impact was manageable without any major impact on our operating margins. But the upcoming 50% tariff, which is set to be effective August 27, well, it makes the cost structure not really viable. So, it could affect our US sales. Our mitigation plans are in place, and we are redirecting volumes to Europe, Canada, Australia and New Zealand.

I do want to guide that this revenue stream represents about 2.2% of Pennar's entire revenue. So we do not, on an overall basis, expect a significant impact. However, out of all of our revenue streams, this is the one revenue stream, which is exported from India to the US and is exposed to the 50% tariff. And in the event the tariff turns out to be a long-term tax structure, then we will have to mitigate this by moving our revenue streams to other geographies, which we are already working hard to build our order books.

Moving now to boilers and process equipment. Order backlog has grown strongly to INR110 crores, with further additions expected. The CEO of that business is very positive for scaling revenue by high double-digit numbers in this quarter, Q2. And for the remainder of the fiscal year as well, we expect to do well. Our PBT margin for the first quarter stands at 4.75%. Again, the impact of our -- the labor issues that we had in our revenue being not what we were expecting initially has resulted in some amount of margin contraction here, but a very, very temporary issue pertaining to about a month or 2 months.

We absolutely expect our margins to improve well once our portfolio mix shift to higher-margin businesses continues. So Q2, we expect that we go back on to our PBT growth path. But this quarter, we are at 4.75%. Capital efficiency standpoint, ROCE is at 22.3%. Now in relation to ROCE, we've always used a definition of EBIT divided by capital employed. We've been in touch with some of you. We've been talking to our investors and discussing this internally.

Now the definition we have used as capital employed is total assets minus current liabilities. We are evaluating post some of our discussions, moving our ROCE definition to include short-term borrowings as well. We will have more on that for you by the next -- we will take a firm call on this once we understand what most of our investors are comfortable with and what is

typically done. And we will then parallelly report the older ROCE numbers and the newer ROCE, including short-term capital as well. And we will take a call on this by the next Investor Conference Call.

Our ROE, of course, will remain unchanged calculation-wise, and it's at 12.12% for the quarter annualized, and we project improvements on this in the course of this financial year. Working capital days currently stands at 76. This is higher than planned, again, the same labor issue that I had mentioned. The amount of revenue that we had to produce is quite substantial, close to about INR100 crores.

So while it is at 76, our confidence that we'll be able to reduce this number and continue in our working capital reduction plan is extremely high. And with PEB and other segments already having rebounded strongly in Q2, we anticipate very meaningful improvements in the next -- when we come to you with our September numbers. So working capital efficiency trend continues.

This concludes my update on our Q1 performance. I will now hand this over to our CFO, Mr. Shrikant Bhakkad, for his comments and a deeper dive into the financials. Thank you so much.

Shrikant Bhakkad:

Thanks, Aditya. Welcome to the shareholders and investors for the first quarter FY '26 earnings call. Total revenue for the period is INR845.67 crores from INR733.45 crores, up by INR112.2 crores, which is overall 15.3% increase in terms of total net revenue from the operations. In terms of EBITDA, it has increased from INR79.01 crores to INR94.12 crores, up by 19.12%.

In terms of percentage, it has increased from 10.77% to 11.13%. PBT has increased by 13.35% from 35.43% to 40.16%. PAT has increased by 21.6% to -- now it is up at 3.78%, up by 18 basis points, and the overall number is at INR31.96 crores.

Deep diving into the key metrics numbers that I've indicated above. Revenue from our customers -- custom design building solutions has increased by 25%. It's a strong revenue that has come from US as well as India. Both our India and the US PEB operations have significantly increased the revenue and both have contributed to the growth of the revenue in this quarter.

Our Raebareli is fully functional, and we have started yielding the growth and we are poised to even higher growth as we speak. We had our US operations from PEB also growing well. And the order book now stands at USD54 million and India PEB order book close to INR855 crores.

The next line item, employee benefit expenses has increased by INR6.52 crores on account of increments in wage revisions and the new additional plant and facilities that have come up in the current year, stand-alone by INR7.33 crores and the increase in Ascent Buildings by INR9.19 crores.

Moving on from there to the finance costs. Overall finance cost increased by INR8.1 crores, which comes predominantly from stand-alone financials. It is on account of increased additional revenue that we have planned and increase in the capex of Raebareli. The overall finance costs as a percentage is 4.16%, while we have guided you to 4%. These are due to the delayed

dispatches that we had at Raebareli plant and due to the lower revenue, which are now behind us.

We have guided you to 4% as our net revenue cost, 1% predominantly from long term and 3% from our working capital. While the long term is in control, the working capital is high and we are hard at work to reduce our inventory as we go by. And the finance costs, you should expect this to come down in the next 2 quarters. Working capital utilization is the metrics that we are trying to look. And as we grow our revenue, the working capital will automatically reduce. We are confident and we'll get back in the next 2 quarters.

Depreciation and amortization, the overall increase is at INR2.28 crores, which includes stand-alone at INR1.7 crores on account of Raebareli and other capex-es that we had and INR58 lakhs on account of subsidiaries capitalization. Other expenses increased by INR37 crores. The variance is predominantly account of -- in stand-alone by INR26 crores, which comes through higher erection expenses, subcontract expense and spare consumables.

In subsidiaries, the increase in other expenses by INR11 crores, which is predominantly due to legal and professional expenses and a lot of one-time related costs for our acquisition-related expenses. We expect this to moderate in Q2 as well as Q3, and this would not repeat. Tax is lower due to the credit that we have received on the tax relating to earlier years. The provision of INR1.75 crores is reversed as a result of the PAT is higher than the PBT.

We continue to guide the tax at 25% -- between 25% to 26%, keeping the US federal and corporate tax into account. Overall, this has been a good quarter from the revenue standpoint, with PEB contributing significant growth in India as well as the US. And we are at better margins in terms of back-end PAT.

With this, I hand over the call for the investor community questions and answers.

Moderator: The first question is from the line of Nitin Jain from Fair Value.

Nitin Jain: Congratulations on the good set. And sorry, I joined the call a little late. So maybe you might have mentioned some of the information. But what is the order book status for PEB India and US as of 30th June?

Aditya Rao: As of 30th June, our order backlog in PEB is about INR800 crores, and the US is about USD54 million. Now both of these are dynamic. And in the last couple of weeks, we've actually had reasonably large order booking in both business units. So, we will get you those numbers. There's a press note we'll release and we'll get you that. But we'll book in excess of INR200 crores some orders in the next few weeks. So, there's an upward trend to both numbers.

Nitin Jain: That's great. And there is a significant jump in other expenses this quarter. So if you could provide the breakup here and why it has jumped so much? I mean, is it related to the labor issues that we face? And how do we see it going forward more importantly?

Shrikant Bhakkad: While I have explained in my -- in the initial press note, but I'm just explaining it again. The total increase is INR37.13 crores at consolidated level. And in stand-alone, it has increased by

INR26.13 crores. This is on account of higher erection expenses, subcontract expense and store and spare consumables that we had detailed. The balance INR11 crores increase is coming from our subsidiaries, which is on account of legal and professional expenses, which are related to acquisition and other consumer-related expenses that we had during the year. We expect this to moderate in Q3 as significant one-time costs are there related to acquisition and one-time investments that we are doing.

Nitin Jain: Right. So just to clarify, the increase in contract expenses, was it related to the labor issues and should we assume that is one-time or?

Aditya Rao: No. There will be no consistent -- or there's no increase, permanent increase or even a sustained medium-term increase in our labor costs. It was more a supply issue rather than a pricing issue. Yes, temporarily, there's been a little bit of an increase, but I think it's already moderated as of this quarter.

The impact of our inability to get our labor in has been a loss of revenue and a loss of profit for that revenue stream and it was a substantial number, but that's all -- was resolved in the month of June itself. So come Q2, neither is there a cost increase, which is medium term or permanent. And also, there's no more revenue loss because of that regard function.

Nitin Jain: Sure. And just my last question. What is the total percentage of revenue we see being impacted by the US tariffs? And what kind of workarounds do we have available with us?

Aditya Rao: The vast majority of the impact is coming in the hydraulics business. As I mentioned, the initial 25% was something that was -- we had priced in some sense, and there wasn't really an issue. Our hope is that there is some moderation in the 50%, perhaps with whatever is underway geopolitically, above my paygrade to comment on that.

But if we can see that 50% drop on 25%, then there is 0 impact. But even if the 50% sustains, significant steps have already been taken. This affects about 2.2% of our revenue. So it's not a massive number to begin with. But even that, I mean, the tariff situation is not going to impact our planning for this year, our targets for this year and frankly, not even for Q2.

There's more than enough revenue buffers underway. So, we are quite well prepared for an extremely strong Q2, and we do not see this affecting our revenue. For hydraulics itself, in the second quarter, there may be a moderate impact. But overall, we do not see any impact on our revenue and profitability due to these tariffs.

Nitin Jain: Great. So just to clarify, the impact would be limited to hydraulics business and that is approximately 2% of our overall revenue, right?

Aditya Rao: The hydraulics US business, which is about 2%. That is correct.

Moderator: The next question is from the line of Shubhankar Gupta from Equitree Capital.

Shubhankar Gupta: Two questions from my end. So, first is that you said the CDBS business is growing by 25% and overall growth of revenues at 15%. And assuming a 50-50 split between the 2 would mean that design engineering is at 5% growth for this quarter. Is that correct?

Aditya Rao: Yes.

Shrikant Bhakkad: Yes, broadly.

Aditya Rao: Yes, that is broadly correct.

Shubhankar Gupta: Got it. So what exactly is hindering that growth barring the labor issues, which you mentioned? And how do we plan to revamp that?

Aditya Rao: So the growth on that was just -- are you talking about engineering services.

Shrikant Bhakkad: Which is like the ICD, tubes, right.

Aditya Rao: So, those revenue streams are not projected to grow at a very fast clip. So they would be -- they would continue to grow, of course, but at an organic rate. There's no capex going into those business units. But the growth vectors that we have, which are pre-engineered buildings, which are Body-in-White, which includes our process engineering and boilers division and our engineering services business, there is no bottleneck for them to grow from an addressable market standpoint.

They all have large addressable markets. But for the short-term impacts, which we had from a labor perspective, the growth wasn't as high as we expected it to be. But in Q2, we have seen a lot of that getting addressed.

Over Q3 and Q4, as our new BD kicks in, I think in engineering services also, structural engineering, we are projecting quite strong growth, high double digit and BIM also should follow. So overall, we expect, as I said, double-digit growth in each of these business units. And as they go up, they will take our margins up and they will take our profitability up as well.

Shubhankar Gupta: Got it. That's helpful. And the second question actually was on the labor issue itself. So, I think somewhere I heard that you mentioned it was inability to get in the labor that has been the issue. So if that's the case, will that not be a roadblock for further growth as well? And how do we plan to address that?

Aditya Rao: So the specific issue was a timing issue. Typically, I mean, just to give you a little bit of background because I think it's an important factor. I think we have lost close to INR100 crores in revenue in Q1 because of that. So let me explain it a little bit as best as I can. So typically, we have -- many of our factories, we have about 13 factories now.

We have a mix of in-house full labor and we have contract labor. So what happened in the first quarter is, which typically happens every year, there is a little bit of migration because of the wedding season. There's seasonality to it where that labor moves back into UP, Bihar and other states.

Typically, we only source from those 2 states. We have not done Orissa. We have not done West Bengal. We've also not developed other avenues that we had in terms of sourcing other contract labor as well, where we can engage with other agencies. We had not needed to because we just assumed that this is something that is cyclical and it goes away and it is accounted in April.

So typically, April, they move out and they come back by end of April, early May. What happened in this quarter is that they did not come back in early May because it coincided with some other wedding season. And it is something that other industries, which are similarly structured has also faced. And the labor came back only mid-June.

So that in the industries where we have, especially in assembly, fabrication, where there's -- it's very difficult to automate those business units, PEB is one of them. We had a significant underperformance on revenue. So, we had brought in the raw material. We had brought in the assets -- current assets that we needed. And the surprise was that we could not get the labor in place.

To fix the situation by going and engaging with other agencies, looking at other, took us about a month. So it is a month of reduced performance, which impacted us. We are now wiser to this. To your question, how do we know this won't happen again? How do we know this won't impact our future growth? We have -- it was -- we'll make no excuse, it was a miss. We should have known about this.

We should have planned for this earlier, but we have now put in place process so that the accessible labor pool for us is much wider than it was by a factor of 2 or 3, frankly. So, we've seen it get corrected immediately in Q2. And typically, at the end of this quarter as well, there's Ganesh Chaturthi, there's other things, and there tends to be a slowdown on that, too.

What we have found is that with this addition, we're able to overcome those issues as well. So all in all, I'm quite confident that labor will not be a bottleneck. We're not going to come back to you in Q2 or this time next year as well and tell you that again, we had an issue on labor through a mixture of 3, 4 different things. I won't get into full detail on it, but there's multiple things we have undertaken, and this issue is now in the rear-view mirror.

And it was one bad month, which impacted the quarter. We were able to grow, but we have done -- we've done well, but we would have done a lot better if we had -- if we didn't have that. And as of Q2, I think Q1 to Q2 sequentially also, I think it's important for us to guide to a substantially higher number. Sequentially also, we are looking at very, very healthy growth in revenue and profitability.

Shubhankar Gupta: That's very fair. If you could just probably share 1 or 2 things, which you have done like differently to sort this in very brief would also help?

Aditya Rao: I'm sorry. Could you say that again, sir?

Shubhankar Gupta: I'm saying that if you could just share in brief what strategic steps we have taken in brief, that will help. No more details.

- Aditya Rao:** It's a combination of reducing our reliance by increasing automation in our end plate and our detail lines. It has included expanding our labor base to include West Bengal and Orissa. We've also tied up with -- we typically used to use two or three contractors. We have now expanded that to a much larger number. These are some of the things that we have done, which has addressed this.
- Moderator:** The next question is from the line of Mayank Agarwal from Scientific Investing.
- Mayank Agarwal:** My question is on debt on books. As the businesses are like working capital heavy, so some debt is expected on book. But if you look at debt as a percent of enterprise value, it is around 23%. So how do you view this? And are there any plans to reduce it over the next few years?
- Aditya Rao:** I'm sorry, the voice was...
- Shrikant Bhakkad:** The question was basically on why your working capital is high and how do you plan to control our working capital to a broader number? If I understand your question, you're basically asking...
- Mayank Agarwal:** No, no. Actually, my question was regarding like if we look at our debt as a percent of enterprise value, it is around 23%. So, like how do you view this? And are there any plans to reduce it over the few years? Like I know it's a working capital heavy business, but as a percent of enterprise value I'm asking, right?
- Aditya Rao:** I think this -- a good question. So in this quarter, because of -- we anticipated higher revenue, so we expand our current assets accordingly. When we did not have the revenue that we expected, the percentage of our working capital as a proportion of our revenue went up. Already corrected, and I agree the number that you guided to is -- and as Shrikant also has mentioned, we're at 4.12%.
- By no means is that a number that we're comfortable with. And by -- we can commit to you that, that is definitely not a number that you're going to see next quarter. You will see it get below that to 3.xx, and we will maintain it at that.
- However, the use of our current assets and specifically our working capital, we are right now at about 76 days. We believe that the long-term potential steady state, that is about 60 days. That's the nature of the business, as you had mentioned. And we also give -- take far lower advances than some of our customers. It's a lower level of risk for us as well because it is free cash flow.
- We don't have to carry contingent liabilities on our balance sheet. It's a model we are comfortable with. And I think I would guide you to longer term 60 days. But in Q2, which is a balance sheet quarter, you are going to see substantial improvements on that 76 days of working capital. But we agree with you that it is high and that 4.12% is high, yes.
- Mayank Agarwal:** So just a follow-up on this, like so going forward, as a debt, as a percent of the enterprise value should decrease like apart from, let's say, the working capital requirements and everything, right?

- Shrikant Bhakkad:** As a percentage of enterprise value?
- Mayank Agarwal:** Yes. Debt as a percent of enterprise value, which is around 23% right now.
- Aditya Rao:** So we with the metric we use, which we had guided to before is we look at our interest cost as a percentage. Our cost of capital is about 10%. We are A-rated on our long-term A1 in terms of our short term. There's adequate current asset cover and obviously, other asset cover. So, we are comfortable with this 3.xx number.
- We will be under 4 for sure, but that's how we measure ourselves with these inventory ups and downs. So, I think breaching the 4% number is something that we see as a Lakshmana Rekha. We don't want to do that. But as long as it's in that 3.5%, 3.7% range, we are okay. So, that's the metric that we use, and it's something we have found to be quite sustainable.
- Slowly over time as the working capital number of days goes down, then you will see that moderate further. But you're not going to see us be at 2%, 2.5%. I mean, there is a long-term and a short-term component to this. We have aggressive growth plans. Each of our 5 business verticals is something we expect to dramatically increase the size of the company.
- All of that will come with keeping our debt equity at the 0.7, 0.6 number, keeping our overall interest cost as a percentage of revenue at the 3.xx number is the way we intend to manage this company. And we found it to be good. And we talk to our rating agencies as well and they say they're fine with that as well. So, we're working hard on a rating upgrade to A+. And our understanding is our model works.
- Moderator:** The next question is from the line of Yashovardhan Banka from Tiger Assets.
- Yashovardhan Banka:** So, I just wanted to understand where on the PEB part, where exactly are we facing maximum demand from like what industries if you could just specify?
- Aditya Rao:** Most of it is manufacturing industries. There's a little bit of pick and choose on this. Right now, we are going heavy on manufacturing and capital. We were warehousing about 2 years ago. So, it's a very versatile kind of construction platform. So, you can pretty much make anything with it. But right now, some of our orders, we have a press note out for you.
- But some of the orders we have received, we have received a INR200 crores order from JSW. We've received from Tata Electronics. We performed in excess of INR100 crores, INR150 crores, I think, INR157 crores. So, Reliance has been in excess of INR300 crores. So the vast majority of our revenue is manufacturing and engineering companies.
- Yashovardhan Banka:** Understood. Understood.
- Aditya Rao:** Just so you're aware, the volatility was quite high. We are also building warehouses. We just got -- we have an order from Rainbow Hospitals for their 2 hospital towers, which are coming -- which is coming up in Gurgaon, which we expect to finish very soon as well. So, we're not curtailed by any -- any non-residential construction can be -- we can cater to, but we are focusing right now on manufacturing.

- Yashovardhan Banka:** Understood. Sir, what is the mix of PEB as a part of our revenue?
- Aditya Rao:** If you include our India and US revenue, about 40% of our overall revenue for the company is metal buildings and pre-engineered buildings and high-rise buildings.
- Yashovardhan Banka:** Understood. And any utilization levels for the Raebareli plant?
- Aditya Rao:** Could you say it again?
- Yashovardhan Banka:** For the Raebareli plant, any utilization levels for this year?
- Aditya Rao:** We are at 65%. I think in the next quarter, we hit 70%. Our goal is to hit 80% by the end of this year. We're quite comfortable that we'll be able to do that. The order book isn't a problem. Equipment commissioning, capex isn't a problem. I think we put a good team in there as well. We're expanding a team further in the next month or two.
- Output has strongly grown and it is a profitable factory now. And we're quite confident that it will be a strong driver for our PEB revenue in this fiscal. In fact, from next quarter onwards, but I think you'll be -- you will see strong growth in this business in both Raebareli and the PEB India vertical and frankly, the entire PV vertical in the next -- in Q2.
- Yashovardhan Banka:** Understood. Just one last question. So any internal growth targets for short to midterm?
- Aditya Rao:** Could you say that again, sir, internal growth for...?
- Yashovardhan Banka:** Growth targets for short to midterm?
- Aditya Rao:** We typically don't give guidance, but what we can do is that all of the 5 prioritized BUs that we have can sustain over the long term, high double-digit growth rates. So, our job is simple: increase our asset base, increase our addressable market and our specific addressable market, our SAM and TAM, just increase that, increase our assets and our revenue and profit will grow.
- And managing that growth in a capital-efficient manner is our priority. So, I would not be able to give you a number, but we are committed to double-digit growth in revenue and profitability over the long term. And we don't see anything that can prevent us from doing that right now.
- Moderator:** The next question is from the line of Deepak Poddar from Sapphire Capital.
- Deepak Poddar:** Okay. First off, just wanted to understand Raebareli, what is our capacity in metric tons? And what can be the optimum revenue potential from that plant?
- Aditya Rao:** So we right now at about 20,000 -- with two beam length, at about 20,000 tons per year. From a revenue standpoint, that comes to about INR300 crores. Now, that includes erection revenue that's enabled by it, other roll forming revenues enabled by it. Let me give you the quick short answer. Raebareli firing on all cylinders gives us INR300 crores of revenue.
- Deepak Poddar:** And here, we have assumed about 80%, 85% utilization?

Aditya Rao: Yes, that's correct.

Deepak Poddar: And annual capacity is about 20,000 metric tons?

Aditya Rao: That is correct.

Deepak Poddar: Okay. Great. And on the labor front, is it possible to quantify what was the revenue lost because of the labor issue? Is that possible?

Aditya Rao: It was about INR100 crores.

Deepak Poddar: So, INR100 crores we lost because of labor issue.

Aditya Rao: That is correct. For the quarter, yes. It's a substantial number, so that entire operating margin of that is something we could have gotten. And it just -- we saw the problem coming in May and -- but what should typically have been fixed in May took us to June middle. It's a lapse, and it's unique to us the way we have structured the business in terms of the labor, short-term versus long-term labor, contract labor versus on-roll labor.

But we've understood the problem and addressed it. It took us a few weeks more than we would ideally have liked. But I do want to state that the overall plan we have for the year, whatever we have guided to for, this is revenue that can be recouped.

We'll just have to run additional shifts. We have also started outsourcing a little bit of manufacturing, about 5%, 10%. So from a revenue standpoint, we will catch up. Profit standpoint, we will do what we need to, to ensure that we hit our targets. So, this isn't something that is going to cause us to moderate our financial year plans or, quite frankly, longer-term plans also.

Deepak Poddar: Fair. I got it. And you also mentioned that this has been completely fixed as we speak, right?

Aditya Rao: 100% fixed. In my opinion, I think we can -- and on behalf of the management, we are -- it should not have happened, but we have fixed it.

Deepak Poddar: Correct. And you also mentioned that 2Q, you expect a stronger quarter, right, as compared to what we have seen in 1Q. And generally, second half is seasonally the better half. So is it fair to say, I mean, sequentially for next 2, 3 quarters, quarter-on-quarter, we'll see improvement in our performance. Would that be a fair statement to make?

Aditya Rao: That is -- yes. I mean, short answer, yes, absolutely. Longer answer, with the exception of the December quarter in the US, which tends to be a little muted. But again, this is something I'm guiding to about 1 million. Maybe I'm talking about INR15 crores, INR20 crores. So with the exception of that, sequential quarter growth is what we have mapped out.

Moderator: The next question is from the line of Rahul Kumar from Vaikarya.

Rahul Kumar: On US PEB, what is the sense you're getting from your discussion with the customers regarding the orders and execution?

Aditya Rao: Order backlog is good. So, we maintain something called an active order backlog, which is a very good lead indicator for what our revenue for the next quarter is going to be. So Q2 -- I mean, so US uses a different -- uses the calendar year system. So, our US Q3 is our India Q2, the quarter we're in right now. So, that quarter is quite strong. December, as I mentioned to the answer to the previous question, December tends to be the weakest quarter in the US.

But again, Q4 for us or Q1 US from 2026 point of view also looks quite strong. Now do bear in mind there's an acquisition we have made that has not started hitting our books as yet. So, that will start Q3, right, Q3, Q4. So in the second half of the year, that's another additional growth push that will come in for our US business.

Rahul Kumar: Okay. Okay. And -- no, I was asking more in the context of the tariff-related uncertainty and industrial activity in US Do you have any feel on what is the outlook by your customers?

Aditya Rao: I mean, I think I can credibly comment on our revenue streams, our order backlogs and what we are seeing and how far out we are seeing it. So, our US revenue streams are metal buildings. We manufacture precision tubing, hydraulics and engineering services. Metal building seems to be growing strong and stronger. And with the acquisition revenue coming in, I don't see any possibility of a decline there in this -- in the near term to medium term.

Engineering services, the same narrative. I think structural engineering is quite strong. And with the introduction of Class A structural as well, we expect growth there, too. We're not seeing a decline there. Hydraulics, I've given a narrative. I don't think the hydraulics market itself in the US is being impacted, but most of that is imported. So, don't see an impact this quarter. But next quarter onwards, we don't know. We have to see. This is specifically our US revenue. As I mentioned, our other hydraulics revenue streams are good and strong. Our order backlog is quite strong.

Precision tubing also, we have tendered -- already not because of that, but before that also, we had moved it to Europe and Canada and other geographies. So, that is not impacted by a lot at all. So based on what I'm seeing right now, our US revenue streams because of the tariffs, neither our order backlog, nor our revenue is being impacted. The one exception to that is hydraulics, which -- I mean, as I mentioned, about 2.2% of our revenue overall. We can mitigate that reasonably with a reasonable amount of ease.

Rahul Kumar: Okay. And on this diversified engineering segment, what is the progress on the defocused business? I mean, what is its share of business now and...?

Aditya Rao: And again, I mean, I don't want to sound like a broken record, but again, because we didn't have that extra revenue come in, the percentage stayed where it was. So it's at that 30%, 35% range. But I can definitely guide you to a reduction in that percentage quarter-on-quarter.

Rahul Kumar: Okay. Are there any new updates on those segments, I mean, in terms of strategic actions or anything else?

Aditya Rao: Yes. So each of those, we need to -- as I mentioned on my previous conference calls, we need to make sure there's no value destruction. We need to make sure there's value realization. So,

what we've done with solar, we want to do with other business as well. As and when we set this up, we are hard at work making sure that Pennar realizes a fair amount of value from our revenue streams here. So it's about INR1,000 crores. It's a substantial revenue stream, all of these other BUs. So, we will come back to you when we have it. But as of right now, I have no further narrative to give us.

Rahul Kumar: Okay. Okay. Fair enough. And the last question which I have was -- so let's say, if I take the US sub-revenues and if I subtract that from the PEB revenues which you disclosed, so the India PEB profitability seems to be pretty strong in this quarter. What would have driven that?

Aditya Rao: I think the US PEB is not just -- I mean, our PGI revenues would not -- on the profitability would not be only in the US There's other revenue streams as well. So, that might change the picture a little bit. But India -- I mean, Q1, our PEB profitability was actually lower than what we had anticipated.

So, we expect that to actually increase in Q2. So quite frankly, our US PEB margins were quite strong in Q1, and we expect that also to sustain. But Q1 was not a great profit number for India PEB. So, we'll work on the math and see what you're seeing, but it was not the case that India PEB was strong.

Rahul Kumar: Okay. And what is the engineering services revenue and profits for -- EBITDA for this quarter?

Aditya Rao: We typically don't report segmental EBITDAs, but it was quite strong.

Moderator: The next question is from the line of Dilip Sahu, an Individual Investor.

Dilip Sahu: My first question is regarding the INR37 crores of other expenses. Around INR11 crores you said has come from legal and consumable, looks like truly one-time. And the labor, if I say around INR10-odd crores, is it fair to assume that around INR20-odd crores are truly non-repeating expenses, so won't be there next quarter out of the INR37 crores?

Aditya Rao: I wouldn't say that. There's some steady-state legal spend, which will always be the case. I don't see -- I don't think it'll go to 0 for those. What Shrikant just mentioned, I'll request him to add some clarity too. There will be some moderation, a significant moderation in it, but they won't go to zero. So, I would not guide you to a INR20 crores reduction in other expenses.

I think the healthier way to see this is to mix other expenses in our raw material because it tends to be a mixture of fixed plus variable component. But overall, what we, as a company, try to do around our business units try to do is get to a certain operating margin in the business we are present in. So, I think a better reading of the P&L would be for us to look at revenue, operating margins EBITDA for the company, PBT and PAT. And on all of those metrics, we have defined growth vectors.

Other expenses being pulled out and that number can tend to be -- I would like to state that even if you were to look at it historically, it is -- the way we have classified it, it can be a very volatile number. But mix it into our variable, mix it into our EBITDA. And our EBITDA, you've not

seen move around all over the place. There's no 20%, 25% swings down or up. So, I think it's better to -- from an analysis perspective, I think it's better to...

Shrikant Bhakkad:

Yes. Just to add to your point in terms of other expenses, other expenses includes some portion of variable expenses as well. So as the revenue keeps on increasing in terms of the variable expenses, those variable expenses also keeps increasing. It's not always as a percentage of the thing that we define it here, which will have a significant role.

We will have a look in terms of what we can do better in order to explain you the analogy of other expenses in terms of investor presentation so that we classify these other expenses, how much is variable and how much is fixed. And then we start giving you maybe the contribution margin. We are thinking internally. We will have the discussions with our investor community, and then we will come back in terms of better representation of other expenses.

And to elucidate the point, there are certain one-time acquisition costs, which is relating to telco and other things, have been added in that INR11 crores increase in subsidiary costs, predominantly is what you would refer to. Will there be the entire INR11 crores get removed away? The answer is no. But to a significant portion of the legal and professional costs, which was one-time can reduce it.

Dilip Sahu:

Great. Great. I think the new representation will be better. Shrikant, what I was trying to understand is that next quarter with this INR100 crores postponement getting into Q2, we most likely will hit INR1,000 crores plus. And I was just wondering at INR1,000 crores, will we reach that 7.5% PBT, 5% PAT kind of a margin? I was just working backwards in terms of one-time cost plus finance costs, which will come down by 0.2%, hopefully because most of the working capital will get normalized. That's what I was coming from.

Aditya Rao:

We won't give a revenue guidance. But obviously, if you add up everything that we have said, we are expecting similar numbers from a revenue standpoint. From a PAT and margin point of view, I think that would be explicit guidance. So, we will not give, but you can definitely expect improvement in our PBT and PAT margins Q1 to Q2.

Dilip Sahu:

Great. My second question was regarding the Body-in-White. You are talking about a lot many customers, apart from Stellantis and Stellantis also had one particular platform with us. So how is -- while I understand you don't give individual division-wise numbers, but if you can give some more color on Body-in-White and the process equipment business, how is the revenue and profitability moved over the last 3, 4, 5 quarters and client representation? What kind of client you get in that?

Aditya Rao:

So, let me describe the business first. Body-in-White refers to the structural components that make up cars. These are passenger cars and also include some commercial vehicles. We go through a process of -- we use technologies such as hot stamping, tailor welded blanks and also cold stamping in order to make these parts, assemble them, convert them into assemblies and give those to our customers who are all OEMs directly.

We don't do auto component. We do OEMs directly. These are long-term contracts. There's a tremendous amount of revenue sustainability in them because typically, these 6, 7 years in terms

of programs. So the expansion in our customer profile in BIW, which is -- you can think of it as a form of an order backlog, is putting a lot of positive pressure on our ability to scale revenue for that.

So again, as I said, high double-digit growth in revenue will definitely be what we're going to achieve. Again, segmental revenue EBITDA, we have not given, so we'll not be able to provide, but I'm trying to see how I can give you a good picture on it. It will contribute materially to our revenue and profitability this year.

Shrikant Bhakkad:

Yes. Just to add to Aditya's point, I think BIW revenue and other things, initially to get into a long-term contract, it takes time. While we have added these customers in our portfolio, in terms of start contributing to our revenue and profitability, it is a path which we'll go through. And it's a multi-quarter program that this revenue and the profitability will get added.

Aditya Rao:

And on boilers and process equipment, what we provide are industrial boilers, power sector boilers. This goes to power plants, cement, steel, sugar and others. And we also provide heat exchangers and other equipment like ESPs and others. The order backlog has grown strongly. It's just early days for it, but it's over INR100 crores.

But the potential addressable market is massive. So we are -- I mean, again, I keep saying double-digit growth, but it is a high level of growth in both these business verticals. Both are profitable. Both we are expanding capacity, and they will very soon start -- they're already contributing to our revenue and profit growth. But very soon, they will become, along with the three other prioritized BUs, they will become the drivers of our growth.

Moderator:

The next question is from the line of Ankit, an Individual Investor.

Ankit:

Almost all of my questions have been answered. So on the US side, you said tariff would be like only 2% type of impact, so not much issue and on the hydraulics side, just wanted to clarify that, sir.

Aditya Rao:

No, we are not going to have a revenue decline in the US or in our consolidated or on our stand-alone business. What the 2% I was referring to is our current revenue base that is sourced from hydraulics US revenue. So what we are going to do -- what we've already done to a large extent, what we're going to do is this quarter same, the next quarter also largely spoken for.

We will be diverting our order backlog and our customers to other -- no, it is entirely possible that this issue gets resolved in a month and then we don't need to do that. But should that not happen, within the next quarter, we will move most of our revenue to a mixture of -- domestic also, we are increasing. But we'll move to Canada, we'll move to Europe, Australia and even New Zealand, for example.

So, we have undertaken good product development with many of these firms, and we will not see a decline in revenue if -- even in our hydraulics business for that matter. And overall, it doesn't impact anything. I'm not guiding you to a 2.2% impact on our revenue or our projection. It's just -- right now, that's the revenue it affects, the tariffs.

Ankit: Got it. And sir, on this INR100 crores labor-related impact, so almost all of that will be covered in Q2 is what I understood, sir?

Aditya Rao: The INR100 crores revenue that we had lost will be covered over the course of the year, not entirely that. But that INR100 crores revenue loss, which we had in quarter 1 will not be there in Q2. But overall, yes, I can definitely state right now that India PEB from -- in July, in August have had very good quarters -- very good performance, I'm sorry, very good output, very good production.

With Raebareli firing on that, we are looking forward to reaching peak capacity utilization and then, of course, increase capacity further after that. But that is very, very close now. So, we will see a big growth number in PEB India. That's what I'm guiding to. Covering of the INR100 crores, we will do it over the course of the year.

Ankit: Sure, sir. Last question would be, can you comment on how is the overall market? Do we expect more order book to increase? How should we look at overall company-wise?

Aditya Rao: We don't see in any of our prioritized BU a market risk right now. PEB order backlog is strong and going strong. The issue we had was all internal, which we have fixed. In boilers, again, order backlog going up, process equipment. With the exception of hydraulics where the addressable market, if you remove the US, has declined. I have not -- I don't have addressable market declines in any of our revenue streams.

So the best way for me to answer your question is we will have issues in generating revenue if our order backlog reduces and our customers reduce, and that will only happen if our addressable market declines. So, we don't see declines in anything, except in hydraulics. And that's also restricted to hydraulics US, which we will compensate for.

Moderator: The next question is from the line of Ameya, an Individual Investor.

Ameya: So, I just wanted to ask you about the impact of the competitive intensity in the PEB sector. We've seen another player getting listed. So, what do you think like -- are you guys having an impact to the competition? Or what is the overall landscape looking like for you guys?

Aditya Rao: No, I think it's a very good thing for these listings. And I see it as a massive plus point because when you are listed, I think there's a higher degree of -- margins become important. Undercutting doesn't become a possibility. So once more and more PEB companies become listed -- I think there's three right now, to my knowledge. I think it becomes very likely that there's an added layer of discipline in terms of capital efficiency in terms of our margins.

And quite frankly, I mean, our PEB India margins are lower than our competitors. So, we are hard at work trying to get that up. We are about 200, 300 basis points less than our competitors on a PBT basis. So this work that we are doing continuously and improving on. So if anything, I think it will help. I think there's a lot of help we can gain from them. From a market share, addressable market point of view, I don't see an impact.

I don't think the market will prevent us from growing. We are right now picking our orders. We say no to most orders. And I don't feel there's an issue in sustaining revenue profitability growth in this business in the near term to medium term because of increased competition.

Shrikant Bhakkad:

Yes. I just wanted to add in terms of the questions that are over. So, we have engaged with the investor community and others in the last quarter after our results. We continue to engage with the investor community even after this call. In case you want to reach out to us in terms of any of these things, please do connect with our team.

And when we are there for our road shows or for discussions, we'll be happy to chat and we will learn from you and then we will give what best information that we can share with each one of you during our road calls. Before we end, I thought I'll just reiterate that we have had the calls with investors, and we will continue to have those calls as we go along.

Moderator:

Ladies and gentlemen, we'll take that as the last question for today. And I now hand the conference over to the management for closing comments.

Aditya Rao:

Thank you. Thank you to all of our stakeholders who have joined us today. We will be hard at work to make sure Q2 is a great quarter. And thank you for all of your support as we look to grow Pennar from strength to strength. Thank you so much.

Moderator:

Thank you. On behalf of PhillipCapital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.