



**“Pennar Industries Limited Q3 FY '24 Earnings  
Conference Call”**

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**MODERATOR: MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL  
(INDIA) PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Pennar Industries Limited for Q3 FY '24 Earnings Conference Call hosted by PhillipCapital (India) Private Limited.

This Conference Call may contain forward-looking statements about the company which are based on the beliefs, opinion and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vikram Vilas Suryavanshi from PhillipCapital (India) Private Limited. Please go ahead, sir.

**Vikram Suryavanshi:** Thank you, Aditya. Good morning and a very warm welcome to everyone. Thank you for being on the call of Pennar Industries Limited.

We are happy to have with us the Management of Pennar Industries for question-and-answer session with the investment community.

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); and Mr. K. M. Sunil – Vice President (Investor and Media Relations).

Before we start with the question-and-answers session, we will have opening comments from the management.

Now I hand over the call to Mr. Aditya for opening comments. Over to you, sir.

**Aditya Rao:** Thank you. On behalf of Pennar Industries, I extend my sincere appreciation to all of our stakeholders for joining today's Investor Conference Call for Q3 2024. Your participation is highly valued, and we thank you for your continued interest and support.

As usual, today's agenda will commence with an overview of our performance for the quarter. This will include insights into our revenue, our profit before tax, our working capital utilization, as well as our strategic growth initiatives.

Subsequently, Mr. Shrikant Bhakkad – our CFO, will provide his “Analysis of our Financial Outcomes”. And following his presentation, we welcome questions from all of you, from all the participants.

Let me start with a “Summary” of our Q3 FY2024:

During the 3rd Quarter, Pennar Industries reported net sales of 744.75 crores and a PBT of 33.07 crores. This reflects a revenue increase of around 7.6% and a PBT growth of 20.08%, alongside a cash profit of 42.92 crores. So, this performance aligns well with our projections. It underpins the forecast and the framework we had communicated in the last quarter, and revenue, profit, and margins will continue to grow in the framework that we have mentioned.

The strategic realignment from lower to higher margin revenue streams results in moderated revenue growth for the next quarter or two but positions us well for significant enhancements in both revenue and in PBT in the forthcoming quarters, particularly across our growth business units in PEB Ascent, which is our metal building business in the U.S., hydraulics, process equipment, and engineering services, we forecast very strong growth over the next financial year.

Moving on to profitability metrics:

Our PBT margin for Q3 stood at 4.4%. This improvement is attributed to our evolving revenue composition, which I just mentioned, and we are favoring higher margin businesses, and we are vacating low margin businesses. We anticipate further margin enhancements also in the following quarters because of this.

Moving on to “Working Capital Management”:

On December 31, our working capital cycle days was 77. Efforts are ongoing to optimize our current assets within the sector as we are transitioning away. So, there is a significant amount of current assets which we are covering, which are there on our books in revenue streams which we are vacating. So, collecting this long tail takes a little bit of time, but we aim to finish this by the end of this fiscal year and we are quite confident that that will bring our working capital back to our target working capital days by the end of this Financial Year.

Moving on to key growth areas for us:

As I mentioned in the upcoming fiscal year, we have identified several critical growth vectors. PEB, both in India and the U.S., are growing and growing strongly. Hydraulics, process equipment and boilers and engineering services.

Now, expansion in these areas is expected to significantly contribute to our revenue and profitability and just these vectors growing. We have other revenue streams in the company. There is growth in those vectors as well, but just the growth, the rupee value and the dollar value growth that these sectors bring in is enough for us to sustain a high double-digit growth rate and our profitability.

Notably, each vertical presents a significant market opportunity and our current market penetration in these segments remains low, which means that our growing order backlogs in these areas will ensure that our revenue grows. So, it gives us a lot of confidence and sustained

future growth because the combination of us increasing our capacity and increasing our order backlogs in these businesses makes it very easy for us to predict future growth.

That concludes my overview and my remarks of our “Financial Performance”. I now invite Mr. Shrikant Bhakkad to further elaborate on our financial performance.

**Shrikant Bhakkad:**

Thanks, Aditya. Welcome to the shareholders of the 3rd Quarter of FY '24 Earnings Call.

Just to first to give you an overview of our key matrices:

Revenue is 744.75 crore, up by 7.6% from 692.22 crores. There has been an improvement in the financial performance in our margins, increase in EBITDA to 11.02%, up by 149 basis point, PBT to 4.44%, up by 49 basis point, and PAT has increased to 3.41%, up by 36 basis point. PAT in terms of the amount is at 25.37 crores compared to 21.12 crores, up by 20%.

With our continued focus to improve the margin and cut down the sales with low margin businesses which we are exiting, you see the increase in the profitability of these businesses. Though we are doing better in terms of a metric sense perspective, the revenue has relatively been flattish due to the low raw material prices in our subsidiaries.

Other incomes include our deposit income, income from mutual funds, incentives and certain write backs. Salaries have decreased due to the one-time bonus which we had last quarter in one of our subsidies and we expect the salaries to stay relatively at this level or increase slightly from here.

The next important part that we would like to communicate to the stakeholders is on the finance cost. When you are growing and you are investing for the growth, you tend to increase the finance cost, and this is what is happening. The interest cost is higher due to the increase in the interest rate from last year at the same time as well as due to the stuck assets in which we are cutting down due to low margin businesses.

The amount that we have invested for the growth also contributes to the increase in the finance cost. Working capital for the above reasons seems to be high. This leads to higher finance cost. Once we collect the stuck assets, revenue from our new verticals start expanding. In terms of revenue, we expect the finance cost to moderate as a percentage of our sales. There is an increase in the working capital section and we expect this to get moderated in the next two quarters once we collect the old stuck assets.

Our debt-to-equity ratio is at 0.85 and we are confident to reduce as we go along.

Our profit in subsidiaries have remained flat for the reasons explained above due to the decrease in raw material prices. Our order book of our PEB has increased. Now it is at 580 crores. Railway is at 90 crores. The boiler has increased significantly to 140 crores and the Ascent USD is at 37 million.

While we have sent out the detailed presentation to the investors, we are happy to take any questions from the investors. I hand over the call now to the moderator.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Ashish Soni from Family Office. Please go ahead.

**Ashish Soni:** Sir, in last Con-Call, you mentioned that PEB business in U.S. can grow multi fold. So, when do we expect it to grow multi fold? Because order book is still okay I will say. So, it will take few quarters because you said we can up our market share to 3% and so.

**Aditya Rao:** So, the PEB U.S. market is massive. The market, so the way we tend to map revenue growth for any business is we first define the market. Then we define the addressable market, which is a proxy for quote activity or scheduled customers we added. In this case, it is quoting activity. And then a high conversion rate from quote activity to order book is what we look at.

So, on those metrics right now in the U.S., market for pre-engineered building is in excess of \$5 billion. So, that's a very large number. Because we are a newer entrant, our market share has been low, which is a good thing in this case, because we are not curtailed with the market to grow. Our quote activity is currently increasing, and our capacity also is increasing substantially.

So, from what I see for the next few quarters, revenue in 2024 and they follow the calendar year, was higher than 2023, and revenue in, sorry, 2023 was higher than 2022, and revenue in 2024 will be even higher than that. They are projecting a very healthy growth rate in their revenue and profitability for this financial year.

But right now with our U.S. business being at around US\$80 million in revenue, we expect substantial growth to come in in that in this financial year and the next financial year as well. So, order books are growing. They will, we believe, be at a record high at the end of March. So, we don't have any concerns on the growth of our U.S. business.

**Ashish Soni:** And regarding your low margin business, when do you think you can completely exit out of this low margin? Like, any particular quarters you are thinking it will be completely out?

**Aditya Rao:** So, we define that we have exited a business completely when our quick assets in that business go to zero. What that means basically is that we have collected all of our accounts receivable, liquidated all of our inventory and any accounts payable as well have been paid out. So, those are the metrics we use.

Right now, we have exited so far in the last 1.5 years our water EPC, our solar EPC, our retail business. So, combined, this accounts for a revenue of close to about I would say as much as 150 to 200 crores a quarter. We have replaced this with newer, higher margin revenue. That's why you are seeing revenue and profit increase.

However, in some of our receivables, specifically in our water EPC business and also in our solar EPC business, are taking some time, the retention periods for our cash flows, completion of our existing order books which we have booked where our customers for sites, there sites not being ready or they are ready and we have executed but they are taking time to evaluate the liability period, all of that is taking some time.

From a working capital point of view, there will not be any more increase. Liquidation of all of this and that hitting our financials will take I suspect about 2 quarters more, but worst-case scenario about maybe 4 quarters more. But the vast majority of it is coming in and coming in with and goes with our saying we don't anticipate any write-offs or anything in these businesses. So, all of that, that has to be provisioned has already been provisioned and is out of our P&L. So, about 2 to 4 quarters we presume we will be completely exiting these businesses.

**Ashish Soni:** And lastly this PAT margin of 5%, when do you think we can achieve that? Because I think last time you gave guidance I think of 4 to 6 quarters, if I recollect correctly.

**Aditya Rao:** So, PAT of 5 means a PBT margin of about 7%. We are right now at about 4.4 for the quarter. You will see continued sustained improvements in this PBT margin. Getting from where we are right now, which is around 5 to around 7, would take us about a year and a half, two years, but we will give you better clarity on that, but you will see sustained growth increase and as you had mentioned that is our growth. Our goal is to get to 5% PAT.

**Ashish Soni:** And last thing. I think you have empaneled BCG for some strategic roadmap. Do you think you can share something in for the investors, maybe for next financial year sort of thing?

**Aditya Rao:** I am not sure how you are aware of that, but we have worked with BCG, but the conclusions of that study are still ongoing. We are still working with them. So, suffice it to say that we are very excited about the strategy, about our growth strategy. We don't believe the market will prevent us.

So, our job is very clear. Just build strong assets in these five growth verticals, which we are continuing to scale. And the combination of a large addressable market and good quality assets on our side will make sure that our revenue and profitability grows, and our margin grows.

So, that is the formula we are following, and we will have more for that only as we implement our plans. But no further guidance or clarity on the current strategy exercises. It is being debated within the company right now.

**Moderator:** Thank you. Our next question is from the line of Rehan from Equity Capital. Please go ahead.

**Rehan:** Could you highlight or what would you attribute to the improvement in EBITDA for the quarter specifically? Like, where did you see the highest driver? What was the key driver of the same?

**Aditya Rao:** The key growth vectors for us from a year-on-year comparison basis, the growth has primarily come in our pre-engineered building businesses and also our engineering services businesses. Hydraulics, while it's well placed for very good growth, it's the order book that has grown by a lot. But converting that into revenue is this quarter, next quarter, the next two, three quarters. But the previous quarter, most of the growth has come in primarily from these two businesses.

**Rehan:** Secondly, what would be the margin profile difference between doing a PEB in the U.S. versus doing PEBs in India? If you could share some light on this?

**Aditya Rao:** It's a complex equation but let me answer it from a market point of view first. So, the operating margin or the contribution, margin after variable, for any business is typically derived from the market. In the U.S., we get about 28%. And India, it's about 15%. So, it's 15% versus 28%. And 28 in the U.S. is on the lower side. We can do better than that also, but right now it's at that number.

**Rehan:** These are contribution margins, correct?

**Aditya Rao:** Correct.

**Rehan:** And could you share any EBIT number for the same or EBITDA numbers for the same specifically?

**Aditya Rao:** I am not sure we give segmental EBITDA numbers. We have had some conversations with you over the last few quarters, with you as our shareholders over the last few quarters to bring this in. We will try to bring more clarity on this so it's more easily understandable.

But from a EBIT point of view, we expect going forward about 10% in India and about 15% in the U.S. for the metal building business. But those are rough market benchmarks of what we should expect. We will try to obviously have more clarity on that for you as we get to submit segmental revenue in the U.S. separately and India separately.

**Rehan:** But just on the same note, as per my humble opinion has been understood the market leader in PEB for the U.S. specifically somewhere around get EBIT margins of between 6 to 8%. So, could you attribute as to why do you feel these margins of I think double-digit which you mentioned are more sustainable than the longer term?

**Aditya Rao:** I believe that we will be able to get better numbers than those than the market leader in the U.S. I mean, you could either be talking about Cornerstone or UCOR. The reason we would have better margins is because at our current revenue run rate of 80 million to their revenue of about over a billion, I think there is a significant difference there. And our engineering is all done in India for that. While we have our design teams there, most of the high man-hours get done in India and there is significant cost arbitrage based on that.

Another reason why our margin would be a little bit better than their margins would be the fact that we can also backward-integrate into other metal products. So, our more diverse steel buying experience also gives us an additional margin. And potentially, this is not something on the table that we have right now, but one of the reasons we are more confident about margin expansion also is it is possible for us to produce in India especially long lead and shift to the U.S., and that would contribute to a much higher operating margin in the U.S. as well. Right now everything that is manufactured is manufactured in India.

Having this interplay for us gives us a lot of confidence that we can sustain these higher margins. And that is important also in terms of our actual numbers right now are also substantially higher than the market leader's numbers actually.

**Moderator:** Our next question is from the line of Deep Gandhi from Astute Investment. Please go ahead.

**Deep Gandhi:** Sir, I also had a similar question about your U.S. business. So, is it fair to assume that the entire difference between your consolidated and standalone broadly is because of the Ascent business? Can we do that math?

**Aditya Rao:** That would be accurate. We do have a small revenue stream in Europe for our aerospace business. But the high growth verticals which are growing are the metal buildings in the U.S. as business. So, broadly yes, broadly speaking, yes.

**Deep Gandhi:** Sir, if I do that math, broadly, currently it seems that the India EBIT of the PEB business is higher as compared to the U.S. I don't know, I mean, you are explaining that the margins in the U.S. are better. But can you elaborate more about this?

**Aditya Rao:** Because it's a mix, I guess it wouldn't be an apple-to-apple comparison, but most of the revenue coming in is Ascent. EBITDA-wise, Ascent would be higher than PEB. It would be higher. We will look at the numbers and get back with more clarity. But as of right now, they are substantially higher. Our EBIT in the U.S. is much higher than India.

**Deep Gandhi:** And, sir, just another question I had about the India PEB. So, what would be the current order book as on date?

**Aditya Rao:** In India right now, we are at about 550. And I just spoke to my CEO on that before this and we are quite excited about the order. By March, it would be a substantially higher number. So, it's growing quickly, and we are picking and choosing our orders. So, no reduction in the market and we are quite confident that with our North India plant opening up in Raebareli in the next few weeks, we believe that we will be very well placed to increase revenue in that business unit.

**Moderator:** Thank you. Our next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.



**Deepak Poddar:**

Just wanted to understand in more detail, you did mention that in the next two to four quarters, we expect that we can completely exit the low margin business. So, what does it mean for our overall company as a whole growth? Do you expect that our growth will be flattish because your low margin business will ideally be replaced by high margin business and effectively will have some margins improvement as well? So, how would we see that? That would be my question.

**Aditya Rao:**

I think the best way to answer that question is, as we exit low margin businesses, we are adding high margin revenue. So, from a revenue point of view, you will see growth, but you will see moderate growth. Now that can mean anything in the range of 5% to 15%. Please bear in mind, this 5% to 15% would be probably a good comparison would be if there was no exit of the low margin businesses, it would be perhaps 25%. But exiting the low margin businesses is about minus 10%. So, that comparison gets us to about a net growth rate of which is moderate.

However, on the profit side, not only are you getting the benefit of that net revenue increase, but on the remainder also the margins are increasing. So effectively, the impact on the bottom line is quite high and we are quite confident of sustained double-digit growth and profitability for the next few quarters.

Confidence in this comes from a very simple formula. We are increasing our revenue in about five our margin high-scale businesses, all of it with double-digit operating margins, some of them with high double-digit net margins as well, if you look at our engineering services business. So, as we bring this revenue in, our overall profit, even accounting for the reduction in the low margin businesses tends to go up by a lot.

So, overall, even you can look forward to moderate revenue growth over the next few quarters, which will also speed up as these business units pick up, specifically Ascent, hydraulics, process equipment, engineering services. As these four verticals and five verticals continue to scale up, you will have strong revenue growth as well, but that will take a quarter or two. But from the bottom-line point of view and margin point of view, you will continue to see.

This is a path we have been on for the last quarter or two. It's exactly what's been happening for the last two years. And if you map it out, that's been happening. Our revenue has been growing at a steady pace. Our profitability has been growing at a stronger pace. And our capital efficiency has been improving coming down from 100 days to 90 days to 80 days to now 77 days. And we expect further improvements on that front as well. So, that's the base narrative for what's going to happen over the next few quarters.

**Deepak Poddar:**

That's very helpful, sir. Just one more clarification. By FY '24 end, what is our working capital target?

**Aditya Rao:**

Our internal target is 60 days, sir. We will give you quarterly projections on what we expect to finish. Right now, we are at 77. If we did not have any, the long tail of businesses we are exiting,

we would be substantially better than that and that would happen. Over time, this brings in. I mean, Shrikant, do you have color to add on this, what will our working capital be?

**Shrikant Bhakkad:** Yes. So, the overall working capital, as you would have seen, this is constantly increasing and the plan here is to, by the next quarter, to have it 75 and in a quarter or two, as I have explained in my previous conversation, with the increase in the revenue that it is leading and the revenue that will come from the amount that we have invested for the growth businesses, it would moderate down further from 75 days as well.

**Deepak Poddar:** But our target is 60 days by March '24. Would that be right?

**Shrikant Bhakkad:** No, March '24, 60 days is not possible. 75 days is by March '24.

**Moderator:** Thank you. Our next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

**Riddhesh Gandhi:** Just a couple of quick questions. Our interest rate is about 30 crores roughly run rate a quarter. So, that's about 120 crores and about 150 crores of debt. Isn't that slightly high and as the credit rating is being enhanced? And if you could throw some amount of light on the potential optimization of your interest cost and the reason it's so high?

**Aditya Rao:** I would like to take the discussion, Riddhesh. See, as I have explained in my brief, these are combinations due to multiple things that happen. And when you say finance cost, it includes a broad base, which includes the LC opening cost, the processing charges towards those LCs, and the interest also includes the finance cost, whether it is short term or the long term-loans as well. So, with the combination of all those things, interest represents a very large number as a component of the total debt.

But if you see our overall debt, we have not significantly increased our either the short-term debt or the long-term debt. So, we have the capability to increase our short-term loan as well. And with the increase the credit rating, which we have got last quarter, we have further gap which we can use. But overall, we want to curtail our usage of the borrowings and that's the reason the utilizations of the short-term debt have been lower.

So, to answer your question in action, the interest cost in future as a percentage of revenue is what you will have to compare, as a percentage of revenue, will start lowering it down.

**Riddhesh Gandhi:** And how low could this actually end up going to, I mean, if we look at it, right? And is the reason that it's appearing to be slightly high optically because you have included the BG cost or is there some amount of factoring or having done receivables, is that the reason it actually even slightly higher?

**Aditya Rao:** No, there are two questions that you have asked. One is in terms of BG cost and the second is in terms of factoring. So, we don't do any factoring substantially of our receivables. Receivables

are stated. The factoring even if it is there, it just tells you discounting and just 15 days or so it will be there. But yes, predominantly our huge cost of finance also includes the BG cost, and the BGs are given for the PEB business which is close to around 5% to 10% depending upon the job and the order. And this BG cost includes a large amount of the finance cost portion as well. And we expect this to come down over a period of time due to better collections and due to better advances that we will be collecting from the PEB business.

**Riddhesh Gandhi:**

The other question I had was, you know, earlier I actually looked at ConCall, you know, you guys had indicated that you were already at a ROCE, the north of 20%, But when we look and it and the EBIT is about 240 crores on about 1,500 crores EBIT capital employed, so just wanted to understand the discrepancy between how you guys look at it and how we are looking at it in terms of the ROC calculation?

**Aditya Rao:**

Yes, see the total ROC is on EBIT of 235 crores as we see. The total assets are 2,500 crores and current liabilities are close to around 1,500 crores. So, which gives you capital employed of 1,050 crores. So, your ROC is well above 21%. And when you do this, I would request you to do at a consolidated level rather than the standalone because there are a lot of things which gets eliminated due to intercompany transactions between the standalone and consolidated. So, these are consolidated numbers. You can look at those numbers and we are well above 21%.

**Riddhesh Gandhi:**

No, but even in the EBIT or even the consolidated effectively or EBIT, if you just annualize EBITDA having x crores and effectively another depreciation of about 18 crores odd, you get to roughly about 240 crores of EBIT, right? And when I look at it in the reserve, it's about 750 crores and your borrowing is about another 750 crores. So, I am getting a capital employed of about 1,500 crores.

**Aditya Rao:**

For EBIT you just take the current liabilities reduced from your total assets. When you take the capital employed, it comes to total assets minus the current liabilities only is what you carry out. You don't remove all the long-term liabilities into that. With that, the capital employed will be 1050.

**Moderator:**

Thank you. Our next question is from the line of Ashish Soni from Family Office. Please go ahead.

**Ashish Soni:**

Regarding this capacity utilization, so what's the capacity utilization for different verticals? And your new capacity is also coming online. So, when do you see capacity utilization like in three, four quarters going up to like 50% or more?

**Aditya Rao:**

So, for our PEB India business, we are at capacity. We are outsourcing production. With the new plant capacity coming online next month, we expect that we should be able to exceed that. So, we would have a much higher capacity utilization. We would be able to increase our actual output by quite a lot over the next quarter. But right now, it's at a very high number. It's close to about 80-90% in India.

The same stands for the U.S. as well. Our capacity expansion program is taking a little longer because the U.S. is also doing quite well economically and consequently. The time it's taking for us to increase our capacity is off by a quarter or two. But by the middle of the calendar year, which is let's say by the first quarter of the next financial year, both India and the U.S., the new capacities will be up and based on what's happening to our order book, growth and scalability in those businesses is a very high probability.

Consequently, hydraulics also we are expanding capacity as much as we can. Hydraulics, it takes a long time to add to order backlog because there is a protractedly high product development cycle in excess of nine months. However, we have been through that pain. We have gone ahead and made our order book much higher than it was this time last year. So, even hydraulics with the capacity expansion coming in over the next month, we will be able to grow.

Same goes for process equipment and in engineering services, the capacity here is more man-hours and we are adding as much capacity as we can. Unfortunately, we are also having a lot of attrition in engineering services, specifically in our building information modeling businesses, our structural engineering and our body in white design teams. But we are scaling this up as quickly as we can and that should drive growth.

So, capacity expansion right now in most of our growth verticals is quite high, including tubes also. Over the next financial year, we will be adding capacity as quickly as we can and that will drive up revenue. But the next one month itself, I think a very significant amount of capacity comes online.

**Ashish Soni:** And when we exit this low-margin business, do we think we can grow revenue of 20 plus year-on-year sort of thing? Is that our aspiration or our aspiration is low single digits?

**Aditya Rao:** No, no, aspiration is always higher than, even higher than 20% and that's, I am quite certain that once we exit low margin, once PEB India, PEB U.S., process equipment engineering services, hydraulics and frankly some of our other businesses as well, they are all high growth businesses. So, at some point of time whatever we replace is out of the system. So, then all of the growth in revenue comes to the overall growth of the company. So, I am sure we will achieve double-digit growth in revenue next financial year. That is our goal, and we prepare for that as well.

**Ashish Soni:** And this last question on the solar EPC. Do you think we want to play anything there or you want to completely exit because lot of capacity or there is a demand coming across the world?

**Aditya Rao:** So, in some of these business which I am not talking about, specifically our railways business and our solar businesses, it's not that the market themselves are bad. It's just that they are growing and as you have noticed, I mean, it is a big space, but we have to pick and choose. We can't grow. One of the lessons we have learnt over the last two years is we can't grow everything. Everything looks good, but we can't grow everything. We have to focus on these five growth verticals and make sure they have the capital, the management man-hours to grow.

And the good news is that these five verticals itself is not curtailing our growth rate. We can grow as big as we want to be from a revenue and profit point of view. We can right now if our gross sales and we tend to think on gross sales. If we are near 4,000 crores, you know, doubling that over the next few years is not really a very hard challenge if we just focus on these.

Hydraulics, our revenue is small, but the market leader is about 2,000 crores. PEB India, we are at about 800 crores and the market leader is about 2,000, you know, more than that, of course. The U.S., same picture. So, if we just execute in these five verticals itself, all of which support each other, all of which have cross competencies, you know, if we just execute in these sectors and these segments, we will be able to get our revenue growth, profit aspiration. So, we will have to, some markets which are good also, we will not be growing. It's a conscious decision we have taken. Doesn't mean there is anything wrong with it. I think it's a good space, but not the space we have chosen.

**Moderator:** Thank you. Our next question is from the line of Dilip Kumar, an individual investor. Please go ahead.

**Dilip Kumar:** So, the question is regarding the standalone businesses, the India-to-India business. The BIW business particularly, it was a single customer, single platform business and it's not growing. So, can you throw some light on what's the outlook for that in the long run? Are you going to add more customer, more projects, more platforms? That's one.

The second question is regarding the vacated businesses. While you said there is going to be a long tailwind of collectibles, what happens to the fixed assets and the people? Is that going to be a drag on our ROCEs and our costs? That's the second question. And the third question is regarding services. While we had, you know, you said that there is some attrition issues etc. How do you see the momentum in that business?

**Aditya Rao:** Good questions. So, body in white is a very good space. It's a very large space. I mean, large companies there are 11-12,000 crores. I think we are spending time to understand that business a little better. As you said, we have one customer in that, but they are a large customer. They are a \$300 billion customer. So, we are growing our footprint with them.

We have new programs which are coming online in the next two-three months I think. So, by June we will see quite significant growth on that. Compared to last year to this year, you should see a very high double-digit growth in that business as well. The challenge there is that the asset flip in the business is very low. So, for most of our businesses, if we, let's say, put 100 crores of CAPEX in, we typically get anywhere from a 6 or 7 or 8 asset flip. So, we get 700-800 crores.

Unfortunately, BIW is lower. The payback period and IRRs are quite decent, but we have to take care of both revenue and profitability in the long run. So, we will continue to focus on growing those 5 verticals that we have. BIW is being looked at more strategically. So, we have good capabilities. We have worked hard over the last few years, and it is going to grow. I am by no

means saying it is not going to grow. So, the future will be good for that business. But we have to figure out a way to augment our capabilities there that addresses that asset flip question and we are working on that. But it is a healthy business, and it will continue to do well.

I have had several discussions with our customers there and we will add another customer as well. There is a lot of tool development and product development capabilities we have added. We also do BIW design. So, it is a good space to be in and we will continue to scale that. But it is not quite the same opportunity as the top 5.

Coming to your question on fixed assets and people, yes, as we liquidate, there are some assets which aren't performing. So, what we are trying to do is to convert those assets to businesses which we are trying to grow and scale. And so far we have been quite successful at that. I don't believe any significant asset will become completely non-performing. That will not happen.

And the people also, the technical talent required, there are overlaps. For a good period of time, we will actually be able to transfer some of our good resources from the business units, which we are not growing, to other business units. That includes water. It includes solar. So, water can move into process equipment, for example. Solar can move into our pre-engineered building businesses.

There are overlaps there, because let's say in solar MMS design and solar in metal buildings, there is overlap. It is not quite the same thing, and I may be over committing, but I think there is overlap there. But that will leave a pool of assets and resources which we cannot quite use, and that unfortunately we have to take some tough decisions. There is no choice in that. We are a for-profit entity, and we have to act accordingly.

Services business, attrition is more to do with, I think it is an industry feature. All of our competitors also have a high attrition rate. I think we are debating how we can lower that and get to a rate which is perhaps if we benchmark ourselves on, not just on revenue per employee or our usage of man-hours, but also on our retention rate, we are monitoring and trying to be not the worst company or not above average in that.

But unfortunately, in the engineering services space, it is the standard. It is important for us to retain, yes, but we have to accept a higher attrition rate than our other verticals. That is just the way it is. Although we don't believe that will impact our revenue, we expect this to be a 100-crore business next financial year at a very high margin, I mean, we get bottom lines are about 20% in that business. So, it is a good business for us to be in. It fits in well and has a lot of ties with our other businesses as well, in building construction, in building information modeling, in automotive. There is BIW, process engineering as well. So, we will make sure that our growth in engineering services does not get impacted by attrition.

**Dilip Kumar:**

If I may ask one more question, this is regarding the investment for the strategic growth areas. Last quarter you said you are working on the numbers, but if you haven't tied up the numbers

yet, if you have the numbers, that will be great to know how the investment is going to be for next year, and if you haven't tied the numbers, you can give an outlook on what is the broad idea in terms of these four or five strategic areas, how we are going to make the investment?

**Aditya Rao:**

So, we will not need to, let me go BU-by-BU. We do have a capital allocation overall strategy but let me not give you an overall number. If you were to look at our pre-engineered building business, the majority of CAPEX has already gone in now. So, there is not going to be extremely high capital investments in order to grow that business for the next year or two as well. We are talking low, maybe around 10 crores in terms of CAPEX for that business.

In our U.S., we are sitting on a pretty large treasury block. So, we will utilize some part of that for our growth, specifically to add another, almost double our capacity over the next year or two. So, that will involve substantial capital investments, but it will be around the 30-40 crore range. So, that is something I can commit.

On other, on our process equipment and hydraulics also, over the next two or three years, there will be not very heavy capital going in. So, you shouldn't see massive investments in the future for growing our businesses. In the next one year also, there won't be too much because what had to be spent has already been spent. Now we are commissioning these business units, sorry, this capacity increase. So, for the next one year, not so much, sir.

Over the long term, yes, you can assume for every 100 crores we spent, or let me put another, for every 700-800 crores of revenue growth, on average, we will have to spend something approaching 100 crores and fixed in gross block. That is what we expect. However, the good news is we expect to be able to payback period wise. We expect to get recoup our investments at a pretty high IRR, so about 30%. So, whatever we spend, we do get back very soon.

**Dilip Kumar:**

So, the tubes investment, tubes large dia tubes business is done. I mean, you were planning last year.

**Aditya Rao:**

Yes, you are right. So, that project is underway. We have completed phase 1 of that project. Phase 2 and phase 3 will be completed in the next financial year.

**Moderator:**

Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to management for the closing comments.

**Aditya Rao:**

Thank you for your participation and attention. I am confident that we have your support to grow the company along the lines of what we have discussed. And the questions on our growth rates, on our markets, on our margins, our interest costs and other whatever is raised, we are cognizant of those and we will make sure that we improve on all of the metrics I promised. Thank you again everyone for your support.

**Moderator:**

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