"Pennar Industries Q3-FY23 Earnings Conference Call"

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MODERATOR:	**MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL (INDIA) PVT. LTD.**

Moderator: Ladies and gentlemen, good day and welcome to Pennar Industries Q3 FY23 Earnings Conference Call hosted by PhillipCapital (India) Private Limited.

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As a reminder, all participants' 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 from PhillipCapital (India) Private Limited. Thank you, and over to you, sir.

Vikram Suryavanshi: Thank you, Seema. 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 a question-and-answer session with the investment community. The Management is represented by Mr. Aditya Rao – Vice Chairman and Managing Director; Mr. Shrikant Bhakkad – Vice President (Finance); Mr. J. Krishna Prasad – Chief Financial Officer; Mr. Manoj – Head (Corporate Affairs); and Mr. K.M. Sunil.

Before we start with the question-and-answer 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, Vikram. Moderators, thank you again. A warm welcome to all our stakeholders. Thank you for your presence today on Pennar Industries Quarter 3 FY2023 Financial Results.

The conference call will follow our usual structure:

First, I will start with my commentary on our financial results, covering our profitability, our liquidity, and our growth. Following this, our CFO, Mr. Shrikant Bhakkad and Mr. Krishna Prasad will present their overview. After this, we will open up the call for questions.

An overview for the third quarter. We recorded net sales of INR 692 crores. Our PBT was 27.54 crores. This represents a growth of 97% over the comparable quarter the previous year.

We saw some moderation in our revenue on a sequential quarter basis, Q2 to Q3. This was due to low margin revenue being remotely placed by higher margin revenue streams. We are confident we will achieve our financial year targets and scale our PBT further in the fourth quarter. We will close the year strongly with our best ever operational PBT.

Our Q3 PBT of 27.54 crores with a margin of 3.98%. We expect further improvements in our PBT as we scale our higher margin deals at the expense of our lower margin business units. We generated a cash PAT of 37.41 crores, which was at a margin of 5.4%. And we are continuing to work on scaling our margins and our PBT value. That covers our profitability.

Liquidity and capital efficiency, so we cover our working capital days and our ROCE. We are currently at 77 days working capital and expect to reach 75 days by the end of this financial year.

Our annualized growth for Q3, I am sorry, was 19%, and we expect to reach 20% ROCE by the end of this financial year on an annualized quarter basis. So, it will not be 20% for the year, but 20% in the annualized quarter, the fourth quarter. That completes our liquidity and capital efficiency discussion.

On our growth drivers, for the next few quarters, we expect a body in white business, our Pre-Engineered Building business, both in India and the US and our Engineering Services business to grow.

We are also working on our expansion of our module project, which will be commissioned in the next financial year and will substantially grow our revenue and PBT.

I am thankful to all of you for your time and attention today. We will continue to focus on profitability, growth, liquidity, and capital efficiency.

I would like to hand over the call to our CFOs for their comments. Shrikant?

Shrikant Bhakkad: Welcome to the shareholders for the third quarter financial results for the quarter and the nine months ended FY '23. The key metrics I would like to just inform you. In terms of revenue, we have increased from 532.97 crores to 692.22 crores with a growth of about 30%.

EBITDA has increased from 46.94 crores to 66 crores, about 40% increase in terms of percentage. It has increased from 9.53% to 8.81%. The PBT has increased from 14.13% to 27.54 crores. And in terms of PAT, it has increased from 10.71 to 21.11.

The increase predominantly in terms of revenue, if you compare the Q3 versus the Q3, it's predominantly on account of the geographical expansion, which we have done in US. So, a chunk of the revenue is coming from that. And also in India, the increase in the BIW business and the expansion in the higher profit-making businesses in terms of steel BUs.

We are happy to inform to the shareholders that we have crossed last year's annual PAT of 42 crores, what we have. And currently, we have for the nine months ended, we are at 52 crores, which itself is up by more than 20% if we compare year with a nine months basis also.

With this, we will like to hand over the call to the moderator.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take our first question from the line of Anika Mittal from Nvest Research. Please go ahead.

Anika Mittal: Sir, my first question is, can you please spend a few minutes on competitive landscape for the industry you are operating in, along with your competitive advantage, which shall enable you to take the maximum orders from the upcoming opportunities, which is coming from the recent budget announced by FM?

Aditya Rao: So, the competitive landscape in many of our businesses is that they are dominated by mature large players. Very few of our businesses consist of competition, competitive intensity where it's very fragmented. So, it would be difficult for me to answer the question across the entirety of our revenue streams. Because we have, as you may be aware, about nine business units within the company.

But I can say for the larger revenue streams, our competition are all, I mean, in India, we compete with Kirby. We compete with Thermax. We compete with Tube Investments. And in the US, we compete with Cornerstone, which is a multibillion-dollar firm. And we compete with Whirlwind and others.

Now, it's a complex relationship. A lot of our competitors are also our customers, because we supply to Thermax. We have good relationships with them as well. So, typically, we tend to get into industries which are mature, which can scale and which have presence of large, well-structured corporates. So, the competitive intensity doesn't rise to the level where you have to compromise on margins to good revenue. I will try to get a better answer to you. But in the interest of time, I think does that broadly answer your question?

Anika Mittal: Okay. And sir, the second thing is for FY '22 end, as per your annual report, your capital employed is 915. That is basically total equity and non-current liability. And earlier, you have guided for 20% ROCE, right? So, would that to be true, you must generate EBIT of 185 kind of EBIT and EBITDA of around 250 Cr . Is that right? And for nine months EBITDA, it is 150 Cr. So, do you think we will achieve 100 Cr EBITDA in quarter three to that guidance to be hold true?

Aditya Rao: So, if you look at the capital employed right now, that number is --

Shrikant Bhakkad: Close to 900.

Aditya Rao: It is 900 crores. So, if you take our EBIT for the year, I think, right now, we would end up at, I mean, 19%, 20% was on a quarter basis. For the year, we may be slightly below that because of Q1 and Q2 we were not at 19% or 20%. But we will not be giving an EBIT projection for the financial year, but you can assume improvements on Q3.

So, I am quite confident that even if we don't touch 19%, 20%, we will be close to it for the whole year. For the quarter, as I mentioned in my initial comments, we will be about, you know, 20% divided by 4. So, we will be at 5% return on capital employed.

Shrikant Bhakkad: For nine months ended FY '23, we have already reached EBITDA of 183.86 crores. And then depreciation if we add, it is close to around 47 crores. So, more or less, we should be that, is our view but it will not be a substantial difference what we will have.

Anika Mittal: Can we achieve the level of 17%, 18% kind of more 20% on an overall year basis?

Aditya Rao: 17%, 18%, EBITDA level, we will have close to around 9, presently we are at 9.5. ROCE, 19%. We will reach 20%. Our target is to reach 20%.

Anika Mittal: No, sir, to reach 20%, you have to must do the EBITDA of 100 Cr in quarter 4. So, that's why I am asking. That's really a surprising number.

Aditya Rao: 900 crores, you added 180 crores in EBIT, right? So, our EBIT right now is not 90 crores. I am confused why you would say we need to do 100 crores in --

Anika Mittal: No. Actually, I was talking in terms of EBITDA. EBITDA.

Aditya Rao: EBITDA is already 180 crores.

Aditya Rao: Yes. I think you may be looking at the wrong number. EBITDA for the nine months is not what you are saying.

Shrikant Bhakkad: I think quarter number or for the nine months ended. Nine months ended number is already at 183.

Aditya Rao: That's what we are trying to say. It's already 183.

Anika Mittal: No, actually, I think there is some confusion. See, your capital employed is 920 kind of, right? And to do a ROCE of 20%, you must do the EBIT of 184, EBIT of 184, right?

Aditya Rao: Yes.

Anika Mittal: And what is your 9-month EBIT?

Shrikant Bhakkad: 100 and let me tell you --

Aditya Rao: EBIT, if you remove EBITDA and depreciation.

Shrikant Bhakkad: Depreciation, 44 crores.

Aditya Rao: 44. So, what is EBIT?

Shrikant Bhakkad: 140.

Aditya Rao: 140 is the EBIT.

Anika Mittal: That's what I am asking. Will you do that kind of remaining EBITDA, 140 cr?

Aditya Rao: No, it's not 100 crores. Where is your 100-crore number coming from?

Anika Mittal: That was the EBITDA thing. EBITDA thing. If you add back the depreciation to EBIT --

Aditya Rao: I would assure you we had 20% ROCE for the year. Okay. Let's go, move forward.

Anika Mittal: Okay. That's the way I was asking.

Aditya Rao: Any further questions, sir?

Anika Mittal: Yes, sir. Your revenues from outside India rose from 44 Cr in 2021 to 72 Cr in 2023. So, my question is, what is this number in the first 9 months, basically your outside India business number in the terms of top line for first 9 months?

Shrikant Bhakkad: See, outside India, in India versus outside India, the difference between the standalone and the consolidated. So, 160 crores is the difference for the quarter-on-quarter, if you take. That's predominantly 536 versus 692. So, 536 crores is the India business, and 692 crores is including the US business. So, close to 160 is the entire difference that comes from that.

Anika Mittal: And second thing is, sir, what is driving this growth? I mean, how sustainable this is? Because I am asking this because considering the macro headwinds going on in Europe and US, I am not getting how we are able to deliver this fantastic numbers. So, kindly give some color on that.

Aditya Rao: At this point, our US revenue, I mean, our international revenue seems to be quite robust. The reason why we are saying that these are order books are growing. There is, as you, I think you mentioned, there is talk of recession. But we are not seeing any sign of that in the markets that we are present in. Maybe in the tech sector, but at least outside the tech sector, we have not seen, at least for our addressable markets, we've not seen any decrease. In fact, our order books have gone up in January. And I am not hearing any talk of a decline in our revenue from our international businesses or a decline in the margins.

Anika Mittal: And sir, on the capacity front, what is our total capacity and capacity utilization across the different verticals? And are we considering any further capacity expansion or CAPEX plans going forward?

Aditya Rao: So, capacity utilization, again, we are a little diversified. So, I can give you an overall number, which may not make much -- I would not -- I would ask you not to scale that number across the company. It's around 60%, 65%. But in several of our businesses, we are at capacity, and we are adding capacity that would include our TB it include in India. It will include TB in the US. It will include our module plant. And in some, we are under capacity, specifically in our steel BU and our older revenue streams, so yes.

Anika Mittal: Any CAPEX expansion plans, sir? Expansion plans in any of the verticals you are considering?

Aditya Rao: ///Yes, we will be scaling our body in white capacity over the next quarter or pre-engineered building capacity in India and in the US as well. And we will also be increasing our module capacity. From our Engineering Services business, yes, we are building a larger delivery team in India as well.

Moderator: Thank you, sir. We take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead, sir, with your question.

Deepak Poddar: Sir, first, I just wanted to understand on the demand scenario, the demand environment both in India as well as the international division. I mean, how do you see the traction in that demand or any kind of slowdown that you are seeing because of the global scenario or because of the inflation scenario? Some flavor on that would be very helpful, sir.

Aditya Rao: So, we are primarily present in the automotive sector, the building and infrastructure sector, railways and aerospace and in the energy sectors. Taken together, that's a big chunk of the gross fixed capital formation in India and, quite frankly, in any country. So, as I mentioned on my call, we don't see any problems in the US. We don't see any problems in Europe.

I think while there has been talk of recessions and soft landings, from what I am seeing from an order book point of view, I am not seeing a reduction in demand as of right now, which means, in our view, we will be able to sustain our revenue and profitability for the near term. We don't see any problem there.

In India also with the exception of some sectors, such as railways, for example, we are hearing a lot. There was a railway budget, but I am not seeing much traction on the ground as far as orders to us are concerned. So, in that we are seeing some moderation in railways. From a profitability point of view, it's comprised of less than 5%. So, it's not a big deal, so to say. But I don't have clarity on our railway business units revenue and profitability in the near term. Hopefully, that changes. Our order books are quite strong, but that's not translating into revenue in railways.

In India, the pre-engineered building sector is now at its record peak in terms of order book. In fact, we are adding capacity as quickly as we can. And as you may be aware, pre-engineered buildings captures basically, any process industry, any warehousing, logistics, any manufacturing industries, the end use of this, any nonresidential construction uses pre-engineered building. So, we are not seeing a reduction there. Large order books here in India and in the US. So, from a demand side, I am not seeing a reduction in that business unit.

Solar also is doing reasonably well for us. Profitability is increasing and improving. And we believe that this is not only us. I think all solar players are expanding their capacity. In fact, we would be a medium-sized player in this field. We would not be one of the larger players in this field. But across our major verticals, whether that be automotive or infrastructure or building construction, railways, we are not seeing, I am not seeing a reduction.

Deepak Poddar: I understood. Sir, the second question is in terms of profitability, you mentioned that our second half PAT would be double of first half PAT. So, are we holding on to that?

Aditya Rao: I am not sure I said exactly that but let me do the math. Give me a few seconds. Our PAT in the first half was?

Deepak Poddar: 130 crores PAT was what we reported in the first half. And I think being aware of the view that the second half will be 2x of what we have reported in the first half.

Shrikant Bhakkad: Yes. For the nine months, it is 51.58 in terms of PAT. And the quarter that we reported earlier was 16. So, it is close to 35.

Aditya Rao: What is the first and second, Q1 and Q2?

Shrikant Bhakkad: Q1 and Q2, 35 crores.

Deepak Poddar: 30 crores. Round about 30 crores. First half.

Aditya Rao: Yes. 30 or something. So, I think we will be close to that, if not entirely that. But I would really not like to give guidance on this. What I would prefer to say is that Q4 will be stronger than Q3 that we have picture of. So, we have no surprises on profitable and all of those are just numbers. I don't think we should.

Deepak Poddar: And sir, anything on FY '24, any flavors that you can provide, I mean, in terms of even the top line thing, and how do we see the margins now we have a coming to year end, right?

Aditya Rao: Again, I will not give guidance. But I can say FY '24 will be better than FY '23. That much I can say. And we are hard at work to improve our profitability and our capital efficiency. And we will report to you quarter-on-quarter exactly what goes on. But as of right now, I would like to only comment that FY '24 will be better than FY '23.

Moderator: Thank you, sir. We take the next question from the line of Mr. Deep from Astute Investments. Please go ahead.

Deep: So, most of my questions are around your pre-engineered building business. So, before I move on to the fundamental question, I just had one bookkeeping question. So, I just wanted to check with you that. So, in your segmental data, you report two divisions. One is diversified engineering, and second is custom design building. So, my understanding is this custom design building is entirely your pre-engineered business. Am I correct?

Aditya Rao: Yes, it is. But it may also include engineering services a little bit. Or no?

Shrikant Bhakkad: Yes. Very, very small part of it.

Aditya Rao: Broadly speaking, yes. You are 90%, 95% right.

Shrikant Bhakkad: 90% of that. Not entirely 100%. 90% of that.

Deep: So, sir, now I move on to the fundamental questions. So, my first question is, I mean, if I look at your revenue growth, the margins which you have been doing in the pre-engineered building is much better as compared to the nine months of FY '22. So, if you can give a broad understanding, and this has been written across the industry. All the players are reporting very good numbers. So, what is changing in the industry? And what is leading to, you know, this kind of growth in revenues and improvement in margins, if you can elaborate on that?

Aditya Rao: You are speaking specifically to the pre-engineered building business?

Deep: Yes.

Aditya Rao: I mean, I think the gross fixed capital formation story is increasing. I think the Indian government, if you see in the budget, government CAPEX is increasing, which means, we don't deal with the government directly. But it filters down to private sector CAPEX ultimately. So, whether it's warehousing, whether it's manufacturing plants, whether it's airports, there is a tremendous amount of new orders that are coming on, the new capacity that is coming on. I can't name names, but the quarter has been characterized by, I would say, three or four very large orders.

Currently, in our order book, 40%, 50% is only two or three players in PEB. That's both a risk and also a good thing in terms of it giving you tremendous ability to cater and make sure revenue goes to those peers. And on the other side, of course, the risk of having, if not majority, a big chunk of your order book coming from only a few players. But in my opinion, all pre-engineered building companies are doing well right now. Because a lot of people in the process industries, warehousing and manufacturing are expanding capacity. I think that's the reason why everyone's order books are right now full.

Deep: And sir, you know, in the past, this industry has faced an issue of raw material price volatility. So, I think FY '18, you had done almost 14% EBIT, and then it has come down to almost 6% margins. So, how are you, you know, plan, trying to change this volatility in margins? And do you think in the future the margins will be much more stable or this kind of volatility will continue because of the volatile raw material prices?

Aditya Rao: I think we had a pass-through. And we have learned the way to manage these risks now. So, obviously, with our risk management every quarter, there is four risks we cover. One of the risks is raw material price escalations, which can be dangerous for our margins.

But effectively, the combination of us booking raw material in advance, quarterly rate contracts, which allow us some time to see a cost increase and then having to pass that on to our customers, and ultimately, price escalation contracts terms for raw material price escalation terms in our contracts, we will make sure that we don't have an issue. Worst case scenario, we will have to go back to our customers and renegotiate if that happens. But that's extremely rare.

So, the combination is four or five things. I don't believe we will have an issue as far as raw material price variability potentially impacting margins is concerned. And that has been the case for the last eight quarters, I think, in my opinion. So, I think we understood how to deal with it. Very, very precipitous rises and falls, obviously, changes the equation a little bit. But I don't think that's what we are expecting right now.

Deep: So, sir, two related questions to this again. So, one, if you can share a number that how much of the order book currently is the contracts which you have signed, the recent one? And what percentage of those have a contract for price pass-on to the customers, if you can share that number? And second, also based on your explanation, do you think that this 9% margin, which you have done on a nine-month basis, do you think you will be at least able to sustain this margin, if not improve? So, these are the two related questions.

Management: US and India put together; the blend is coming as higher.

Aditya Rao: 9 is what?

Management: PBT.

Aditya Rao: PBT is 9%. Sir, what is 9%?

Deep: So, based on the segmental, 9% is your PBIT for the pre-engineered building division on a nine-month basis.

Aditya Rao: Yes. That is why I said US business is a higher margin. I think we can safely say that that will persist. I don't see an issue there. As to your question on what percentage of our order book we have price escalation for, it's a good question. I don't exactly have the answer right now. I will get back to you on this.

Deep: And sir, one last question from my side before I join the queue. So, you have said that you have almost 800 crores of order book now for your pre-engineered building business.

I assume you have 800 crores of order book for your pre-engineered building division. So, if you can share what kind of time lines are usually there for order book to get converted to revenue?

Aditya Rao: Typically, they convert in about 6 to 8 months. I don't think it's much more than that. Now, again, this is a blend. Some convert in 3 months itself. But the vast majority of it, I think, converts quickly.

Moderator: Thank you, sir. We take the next question from the line of Mr. Vikram from Niveshaay Investment Advisors. Please go ahead.

Vikram: Sir, what is the current order book from solar business?

Aditya Rao: Current order book of solar? It's about 800 crores.

Vikram: And what was the contribution in last quarter revenue?

Aditya Rao: We don't have an exact breakup for that because it shifts in the huge part of our BU. But say, around 70 crores, 75 crores.

Vikram: 70 crores to 75 crores. And what was the margin on that?

Aditya Rao: Margin as in we don't report segmental PBT. But we have a base where less than a certain percentage of operating profit. Each business it's a different number. So, specifically to that business, we will not be able to give you the margins.

Moderator: Thank you. We take our next question from the line of Mr. Dilip Sahu, an individual investor. Please go ahead, sir.

Dilip Sahu: You just talked about solar business pending order is 800. Where does it sit? Does it sit in pre-engineered building projects? Or is it somewhere else?

Aditya Rao: It doesn't sit in PEB. As I said, for PEB, we do provide a segmental breakup. But solar sits in the remaining main company revenue as part of that. But we say 800 crores order book, not revenue.

Dilip Sahu: So, I was just wondering, you know, if you have pre-engineered building India, US together is 1,200 crores, and you have a solar business of 800 crores and your run rate order booking in products is around 350 crores, 400 crores. They are regular businesses. So, as we speak, starting 1st of January, we are talking about 2,400 odd crores of pending orders for the quarter. Some of them will not get billed in this quarter. Sir, my question is, am I getting the numbers correct, that solar business is 800 crores?

Aditya Rao: Broadly.

Dilip Sahu: Engineering business, US and India is 1,200 crores plus regular business in the Components and Products business, which are just run rate businesses.

Aditya Rao: Ascent is about 40 million to 45 million in terms of an order book as of now.

Dilip Sahu: 240 crores in Ascent, 760 crores in India pre-engineered.

Aditya Rao: Yes. PEB is about, as we said, about 800 crores. Railways is about 156 crores. And solar is about 800 crores. So, yes, so the math is approximately right, yes.

Dilip Sahu: So, around 2,000 crores. So, you know, the solar business that we picked up in September, we discussed that it would get billed in 6 months from September, which is basically March end. That is not happening, right, because we are just hardly billing 700 crores maybe out of 1,100 crores?

Aditya Rao: No, we haven't billed that. Partly, the reason is because there are delays from our customers on execution on that. I will not name the customer. But they are a large PSU and I think the land acquisition is not….

Dilip Sahu: This release you have come up with, which say that 1,100 crores will get billed in 6 months, that will get delayed to Q1 next year, right?

Aditya Rao: At this point, I can't give you a lot of clarity on exactly when those specific orders will pass out. But I do have every confidence that those will pass out.

Dilip Sahu: And even not partly because it's a turnkey project. So, you won't even bill partially or you won't recognize the revenue at least.

Aditya Rao: I am not saying we won't. But at this point, I can't commit to the exact value is what I am saying.

Dilip Sahu: The second question, so this 1,150 crores is most likely will be a carry forward for next financial year, partially at least, majority partially?

Aditya Rao: Are you talking about our pre-engineered building order book?

Dilip Sahu: The PSU energy company, which we picked up that 1,150 crores?

Aditya Rao: Yes, my expectation right now is that it's for next financial year and not really this financial year. And that's okay because we never really factored --

Dilip Sahu: No, I am just trying to get a clarification. I was assuming that Q4 will be 1,000 crores quarter for us because I am assuming that a lot of it will get billed up.

Aditya Rao: Yes. I don't believe that as of this now, I don't have that clarity to tell you whether we will execute in the fourth quarter or not. But I can tell you, fourth quarter will be quite early.

Dilip Sahu: The standalone and consolidated revenue in nine months is the difference is 500-odd crores. Can I assume that it's mostly US out of the 500 crores, 450 odd crores will be US?

Aditya Rao: Yes, 90% of the consolidated numbers vis-a-vis the standalone numbers, if you see, comes from the foreign subsidiaries. We don't have any big Indian subsidiaries here.

Dilip Sahu: So, I can safely assume that around 400 crores will be buildings and 100 crores will be your components, like hydraulics and tubes and stuff like that? Is that a correct assumption?

Aditya Rao: You mean International revenue? No, that revenue gets recorded in the main entity itself.

Moderator: We will take the next question from the line of Mr. Hari Kumar, an individual investor. Please go ahead, sir.

Hari Kumar: My specific question is regarding this water treatment business. Regarding this water treatment business, sir, like, is there no focus on the management side on this business because other companies are making huge turnovers in this water treatment?

Aditya Rao: I will say that at this point, we have an order book in water EPC. Specifically, our capabilities are in industrial water treatment, desalination, ETP, effluent treatment recycling systems. We are executing our order book out. Yes, we are working, we are not looking at this business as a business unit we want to grow. And there are others, our competitors, who are doing quite well.

Hari Kumar: And the second question is regarding this standalone. Like most of the property is coming from a subsidiary company. Like, why is the standalone profitability not improving, sir?

Aditya Rao: I think, there are improvements in standalone profitability and consolidated profitability. And going forward, that will continue to be the case.

Shrikant Bhakkad: Standalone profitability also increased from 11 crores to 15 crores, if you see on a PBT basis from December '21 to December '22. And that's roughly approximately 40%. There is a growth in standalone as well.

Hari Kumar: But compared to the turnover, it seems to be very less.

Aditya Rao: That's a good point. I think margin expansion in the standalone entity is something that's important. And we are focusing on that. And as we add newer revenue, I have spoken of BIW. Whatever we are adding is higher margin. So, I am sure we will continue to see sustained margin improvements. As we have for the last 8 quarters, as you see, I think there has been sustained margin improvement. We will continue to work on that for the standalone entity also.

Moderator: Thank you, sir. We take the next question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: How much is your gross debt and net debt right now in the business?

Aditya Rao: It's reasonably flat.

Shrikant Bhakkad: There has been not a substantial increase in terms of the asset positions that we have. And through working capital measures, we are able to increase. The net debt position is close to 628 crores what we have, gross debt. The net debt, if you add up the cash and bank balances, close to around 120 crores that we have. The net debt will be 500 crores.

Riddhesh Gandhi: And just so I understand, in terms of that you will have a plan of reducing this debt and is the free cash flow, given the overall EBITDA is increasing, your profitability increasing, would we be seeing the internal free cash flow being used to pay down exceeded debt? Or will the debt remain flattish given the expansion we are doing and incremental low capital driven growth?

Aditya Rao: I think the vast majority of our debt over, I would say, close to 18% above is working capital debt. Some of it cash, some of it noncash. So, I don't see any way we are going to escape that. They are going to continue to need these instruments. You can see our debt increase in proportion to our revenue. And what we market out as is we make sure interest cost is less than 3% of our overall revenue. That's what we try to make sure it happens.

But what we do also is, as Srikanth has mentioned, set cash aside. So, you will see a lot of positive cash flow after operations for this year and already nine months, I think, you have seen it in our balance sheet of the quarter.

Shrikant Bhakkad: Yes, but close to 100 crores is what --

Aditya Rao: Yes. You can say 100 crores positive cash generation this year for sure.

Riddhesh Gandhi: And the other question is with regards to, you know, you had indicated there is some amount of excess land, etc., you guys are in the process of considering sort of monetizing. Is there any update on that? Is that actually being actively pursued? Or is that sort of actually a longer-term aspiration?

Aditya Rao: As of right now, we have no, nothing to share with you. But as I have mentioned in my last call, this is something that the Board takes up and is reviewing. We have already affected a sale of one small portion of our land assets. But we don't see ourselves as a real estate company. So, as the Board takes decisions on this, we will liquidate.

But we have no interest in expanding or anything for that land bank. It's an asset that's there. It's good. So, we are better off having our assets and manufacturing equipment and other kinds of assets. So, we are not actively looking to grow it. What is there, the Board will take a decision. And when we have some decision, we will definitely communicate it.

Moderator: We will take the next question from the line of Ankur Agrawal from RC Wealth Solutions Private Limited. Please go ahead, sir.

Ankur Agrawal: Sir, what is your total order book as on date, in all verticals?

Aditya Rao: So, we have covered that, sir. Combining all the order books, I think, is a **(Inaudible) 40:10** picture. But as our previous investor had suggested, it's about 1,500 crores, everything included.

Ankur Agrawal: Sir, what is your projection about how much revenue and turnover we are going to generate at the end of this financial year,?

Aditya Rao: Whose projection, sir? You are talking about next quarter?

Ankur Agrawal: This financial year projection how much revenue are we going to do?

Aditya Rao: Sir, revenue projection but I can tell you that Q4 will be a strong quarter from the perspective of both profitability and revenue basis.

Ankur Agrawal: Any CAPEX plan for next year?

Aditya Rao: Yes. We are expanding our PEB in India, PEB in US, our module plant and our body in white business CAPEX.

Ankur Agrawal: How much fund required?

Aditya Rao: We have not finalized our next year CAPEX budget. But we will get back to you by the next quarter on the exact amount. But we don't anticipate raising debt or anything to finance it.

Moderator: Thank you. We will take the next question from the line of Patanjali Jha, individual investor. Please go ahead.

Patanjali Jha: Aditya, extremely delighted at your results and listening to you for the prospect of the company, not only in the next quarter, but also subsequently. Really proud of you and the management, and the way you have handled the situation in the past. I have a very limited one question. In the past, you did so well with the ICF. Do you have any plans to go back because there is so much of CAPEX happening there, and it's a prestigious project with a decent margin? Just your take on that.

Aditya Rao: So, firstly, thank you for your words. Regarding ICF, your question, we currently have an order book that's not translating into revenue. If the Integral Coach Factory, Model Coach Factory and other manufacturers want to expand their order, I mean, they give us more orders and that translates to revenue, we absolutely retain and have those capabilities. We have very substantial assets.

As of right now, I have no clarity on that business unit. And yes, as you said, it's a prestigious project. But what's important for us is sustainability of our revenue, reliability of our revenue streams. At this point, I don't have that clarity in terms of, on paper, it looks good, but we can't depend on that. Ultimately, we have a job to do. So, I have no sunlight on that, sir, right now to give you.

Patanjali Jha: And one more area we just wanted some ideas on these opportunities, they are in many places. So, any chances of us expanding our footprint in the railway opportunity or we stay focused on what we were doing in the past cycle?

Aditya Rao: Yes. So, our current value proposition for railways is and was fabricated structural assemblies for coaches and wagons effectively and wall, sidewalls, roof under frame assemblies and parts. So, it will continue to be there.

Even for newer trains like Train 18, Vande Bharat, as it's called in the media, we have strong capabilities. We will continue to sit on that. There is some revenue happening, but it's about, in this year, I doubt it will cross 200 crores, for example. But our expectations are higher. Hopefully, it translates. But as of right now, I don't have any confidence that that's going to happen.

Patanjali Jha: Anything you share on the defense front?

Aditya Rao: I have explicitly been told by my customers not to discuss it.

Moderator: Thank you, sir. We take the next question from the line of Deep from Astute Investment. Please go ahead, sir.

Deep: Sir, I have one more question. I was speaking on gross block. So, it is almost 1,000 crores in FY '22. So, if you can share the breakup how much out of the 1,000 crores is for your Pre-Engineered Building division. And if you can also share what kind of working capital you have for your steel building division?

Aditya Rao: So, for Pre-Engineered Buildings, in India, gross block or net? Gross block would be about 70 --

Shrikant Bhakkad: 170 crores.

Aditya Rao: Both combined. So, 172 is the gross block for the entirety of our Pre-Engineered Building business.

Deep: Working capital for this building?

Aditya Rao: Working capital for the business? It's about two months of working capital.

Moderator: We take the next question from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, I just wanted to understand on the railways front, do we take direct orders? Or we do subcontract? In terms of capabilities, you mentioned, we have strong capabilities, right? So, are we making effort to kind of, because railway is one area where we see a lot of potential in terms of the order inflows that can come in, right? So, how do we look at it?

Aditya Rao: So, orders are there. As I mentioned, we potentially have orders for the next one year also already. But as I suggested, for whatever reason, it's not converting to revenue. And our orders are directly from PSU such as Integral Coach Factory, Modern Coach Factory for coaches. For wagons, it's denominated by the private sector. So, our customers are Titagarh, Texmaco, Besco.

Deepak Poddar: But do you see that traction can build over the next maybe one to two years? Or will it be difficult for you to say?

Aditya Rao: I think I want to be careful that I say what's important. What's important, sir, I think, is that there is a lot of clarity in how they want to roll out their own rolling stock plans. Their execution on the planning, there is no problem. I think that's all hard at work. But it's also privatization versus not privatization.

So, I think, once there is clarity on what they want to do, I am certain that it will come. But as I mentioned, for us, we can't wait for that. We can't wait for that for growth. So, I think, we have to ensure that we scale irrespective of whatever happens with railways. So, that's our plan. We are not counting on railways to grow our revenue.

Deepak Poddar: And sir, my second question, I think, earlier in the previous calls as well, I think we had an aspiration of 5% PAT margin, right, maybe? So, what sort of time line we might be looking at to achieve those kinds of margins?

Aditya Rao: So, I think, if we continue on the path we are on for quarter-on-quarter improvement, quarter-on-quarter sustainability, replacing bad revenue with good revenue, I am seeing our ability to reach that is actually quite strong. But it may take, I would say, a year, year-and-a-half would be when we would be able to reach that. And it's not like 5% is a very high margin. But it doesn't end at 5%. We should look beyond that as well.

Deepak Poddar: But currently, I think, we are at about 3%, right? So, the next stepping stone would be at least a 5%. Maybe then we might look beyond, right?

Aditya Rao: Yes. Exactly right.

Deepak Poddar: And that is 1 to 1.5 years is what we envisage.

Aditya Rao: Yes, I can assure you we are working on it on a quarter-on-quarter basis. Margin expansion is very important for us. So, we will continue to work on it. But we haven't said that time that 1.5 years we will definitely do it. But I am certain that you will see quarter-on-quarter improvements. And I don't see a reason why 5% and beyond is not achievable based on our current product profile.

Moderator: Thank you. We take the next question from the line of Mr. Dilip Sahu. Please go ahead, sir.

Dilip Sahu: Thanks for the follow-up. Two questions. One is clarification. This pending order book that you are showing, I just want to read this one. The PSU BU is around 1,100 crores, which very hardly anything is billed, so I would say, 1,100 crores. And India PEB is around 760 crore and Ascent is 40 crores. The total comes to around 2,500 crores, only three of them. So, am I correct? Or am I making some mistake here?

Aditya Rao: No, you are right. You are not making a mistake I think I missed --

Dilip Sahu: With these three only, the PB and the PSU business itself is 2,500 crores of pending orders as we speak. Plus, there will be some normal component. So, that's good. My question is regarding steel tubes in the expansion. The issues tailwind including TI industry, as you know, they have announced a 115 crore expansion of the steel deal. And pretty much everybody I have talked to are talking about expansion investment, CAPEX and all.

We have a very miniscule capacity in steel tubes. I understand Velchal, we have got a small pilot plant or something. So, any idea in terms of tubes itself has been quite stagnant for three, four years for us when everybody is talking about 40%, 50%, 60% of growth. So, one commentary on the steel tubes business and expansion in the Velchal factory and tubes business in general will be appreciated.

Aditya Rao: First, clarity on the order book question. You are right. I misspoke. When I said,500, I didn't include the PSU order book. If you include that, then yes, it goes to the number that you mentioned.

Now as far as our plans for tubes are concerned, we believe tubes is one of our good growth verticals. And you are right regarding TI's recently announced project to expand their large diameter plant, which is in Tiruttani. And they're spending about 180 crores on that.

We will also be expanding into large diameter tube in the next financial year. As of right now, we have not finalized that as a project. So, I have no details in terms of the CAPEX or capacity, but we do believe this is a good market for us to be in.

Our tube manufacturing currently will encompass CDW only and not ERW. In CDW in India, we would be number two behind Tube Investments, I am sorry. But yes, obviously, if you look at the entirety of the tube market and you combine ERW and CDW, then we are a very minor player.

But the value addition, the more precise products, the higher margin products are all in CDW. Even TI, the majority of their sale is CDW and not ERW. So, that's the path we are on. We are at about 20% of what TI is at right now. We will scale up. There is plenty of market size for us to grow into. We will be working on implementing a large diameter tube project very soon.

Dilip Sahu: So, next financial year, we will see some investment going to steel tubes.

Aditya Rao: We will give you clarity on that the moment we finalize our plan, sir. But at this point, I will definitely say the large diameter tube capacity is definitely something we will expand into.

Moderator: We take the next question from the line of Mr. Gaurav Agarwal, an individual investor. Please go ahead, sir.

Gaurav Agarwal: Sir, my question was with regard to other income. So, there is a substantial jump on a nine-month basis. So, how do you see, you know, what are the key components of this other income? And is it sustainable? And if not, then what is the trajectory going forward?

Shrikant Bhakkad: See, there are various streams of other income, where it comes, predominantly was on account of the amount that we are sitting on treasury and the cash and bank balances. That's where the amount comes from. And also the other income that we have is on account of foreign exchange fluctuations that we had volatile. Last couple of quarters, there was volatility. So, we had some exchange gains. But this may not be the scenario which will repeat in the future.

Gaurav Agarwal: Of the nine months other income of 35 Cr, how much would be on account of foreign exchange?

Shrikant Bhakkad: Foreign exchange fluctuation is close to around 15 Cr there.

Gaurav Agarwal: And sir, when you gave your PAT guidance and for FY '24, you want to perform better than FY '23. So, you would obviously take into account all these things, right? Like other income, which was unsustainable like FOREX income, it won't be a part of next year. So, you take all those things in account and then you give your, not guidance, per se, but your aspiration for FY '24.

Shrikant Bhakkad: We generally do not give.

Aditya Rao: No, I think the question is regarding the reliability of other income. We are quite sure it will be. I think, when we do our pricing, we are quite clear what margin we want to sell our products at. Our margins will be sustainable, sir. And whether other income comes or not, these are components of the entire margin that come in. We will ensure margin protection, if that's your question.

Gaurav Agarwal: And sir, of this 35 Cr, just hopping on it a bit more, is there any write-back component also, like there are some provisions that you keep making, you know, on a quarterly basis. So, would some write-backs also be a part of this? And if yes, how much would that number be for nine months FY '23?

Shrikant Bhakkad: Yes. The write-backs are a certain part of it. But those writebacks and those foreign exchange fluctuations will not repeat, per se, is what I am saying. What you would repeat is basically the Treasury income that we are setting, which is in terms of bank deposits and other income what we have. The foreign exchange fluctuation, if the fluctuation happens, it is., But both these gets factored when we sell to the customers and what we receive. That's the difference. And at the quarter end, whatever the recognition we have, we have that difference. But it has more to do with the exchange fluctuation rather than repeating every time. Does that answer your question?

Gaurav Agarwal: Yes, sir. It does. And just one last question on the monetization front. Do you have, you know, near-term goals in terms of monetizing some non-core assets or land assets? And if yes, how much could be the quantum? And in case you don't want to monetize them, what could be the quantum otherwise, you know, for these non-core land or non-core assets?

Aditya Rao: I think, I had answered this question previously. We currently don't have a plan to commit to you on liquidation of our land assets. But we don't see it as a core asset for the company. So, as we have plans, we already liquidated some portion. As we have an idea of what they are going to do with it, we will communicate it to you. But the Board is discussing this issue. And once we understand it better, we will get back to you.

Gaurav Agarwal: And sir, just the quantum, if you could share that number?

Aditya Rao: Quantum, I mean, there is substantial land assets in the company. The valuation of that is market determined. But within the company, there are in excess of 300, 400 acres.

Gaurav Agarwal: Conservatively 300, 400 Cr is what I can take.

Aditya Rao: I would not be able to comment on the exact valuation of our land assets.

Moderator: Thank you. We will take the next question from the line of Mr. Gaurav Sachdeva from Pennar. Please go ahead, sir.

Gaurav Sachdeva: Sir, could you throw some light on the acquisition you did in France?

Shrikant Bhakkad: Acquisition in France.

Aditya Rao: Acquisition in France. Cadnum is in the aerospace field. We are hard at work trying to scale that business up. I think last quarter I mentioned that we will give you a little more clarity. So, they have now achieved profitability, but the numbers are very small. For us, it's about building Europe out into a bigger market. So, both our engineering services revenue and our aerospace machining revenue is growing quite well.

Cadnum also gives us a lot of capabilities in the automotive tooling space, which they also specialize in. So, it's work in progress. But over the course of the next year, I am certain we can make this into a big driver of our revenue and profitability in Europe. But right now, it's early days, but it's profitable. We have met our expectations from the acquisition.

Gaurav Sachdeva: Sir, what kind of revenue we are getting in FY '24 on this France acquisition?

Aditya Rao: I would not be able to give you the exact breakup right now, sir, but it is low. I mean, the entirety of our Europe revenue would be close to about 60 crores or 70 crores for the year. It's low.

Gaurav Sachdeva: And sir, just I'm new to this company. So, that's I wanted to know what exactly we will do in the solar vertical of our company?

Aditya Rao: So, solar, we provide module mounting systems, tracker solutions and module manufacturing.

Gaurav Sachdeva: So, we are into manufacturing also, right?

Aditya Rao: Yes.

Moderator: Thank you. We take the next question from the line of K. C. Poovanna, an individual investor.

K. C. Poovanna: I have been an investor in your company since a very long time. So far I have not received any dividends, any rewards for my investment. Is there any proposal of giving any dividend in the near future?

Aditya Rao: Sir, dividends and any other corporate actions are decided by the Board. And the Board takes the decision it feels appropriate from time to time. I am thankful for you for being a long-term investor of the company. And once the Board has something to share, I will convey that to you, sir, once a decision has been made.

I will say that we have completed a substantial buyback in the last financial year. And we continue to debate these at the Board level. But thank you again for your support. I do mean that, sir.

Moderator: Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Aditya Rao: Thank you for your presence and for your questions. We will continue to do the work we have set out for us, and hope to close the year out strongly from a revenue and PBT point of view as well. Thank you so much for your questions.

Moderator: Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.