"Pennar Industries Limited Q3 FY15 Results Conference Call"

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MANAGEMENT: **MR. ADITYA RAO – VICE CHAIRMAN AND MANAGING DIRECTOR**
MR. KRISHNA PRASAD – CHIEF FINANCIAL OFFICER

MODERATOR: **MR. MANISH RAJ – DOLAT CAPITAL**

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Q3 FY15 Results Conference Call of Pennar Industries Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need any 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. Manish Raj of Dolat Capital. Thank you and over to you Mr. Raj.

Manish Raj: Thank you Mallika. Good morning all. We on the behalf of Dolat Capital welcome you to the Q3 FY15 concall of Pennar Industries. We have with us Mr. Aditya Rao – Vice Chairman and Managing Director of Pennar Industries to discuss the Q3 FY15 earnings and future outlook. I hand over the call to Mr. Rao now. Thank you sir.

Aditya Rao: Thank you Mr. Raj. To all the stakeholders of Pennar Industries it is a pleasure to have you here with us today for Q3 conference call for Pennar Industries. I am joined here by the CFO Mr. Krishna Prasad as well. We will start with an overview of the third quarter performance. We have had another strong quarter with very strong order booking across multiple verticals which includes railways, solar, pre-engineered buildings division and an environment business. We are very happy also to share that there has been margin improvement across most product categories and overall margin growth which is also saw about 20% growth on a year-to-year basis. This trend is also visible on a sequential basis. We continue to improve our working capital and cash flow cycles, there is no new debt that has been raised by the company and we expect this growth trajectory to continue.

For the third quarter, we had a consolidated gross sales of about Rs. 336.15 crores which is a growth of 7% of the same quarter last year. We had EBITDA of Rs. 25.62 crores which is a growth of about 19.2% over last year and a profit after tax before minority interest of Rs. 8.69 crores and profit after tax after minority interest of Rs. 7.7 crores which is a growth of about 21% from Q3 of the previous financial year. The highlights of the third quarter essentially are a very strong order book growth, our balance sheet strength continues, no new debt has been raised in fact the leverage in the company has been brought down and we expect further improvements to the company's balance sheet over the next quarter as well. We have also been able to fund specific CAPEX opportunity in verticals such as railways, tubes and industrial components and we believe that very quickly we will be able to see growth coming out of these capital investments.

The steel products division showed some de-growth from Rs. 100 crores to Rs. 98.9 crores but the EBITDA margin did grow from 5.9% to 6.2%. The Systems and projects business grew from Rs. 36.3 crores to Rs. 48.3 crores and the EBITDA margin also grew from 10.2% to 11.3%. These comparisons are of course on a year-to-year basis which is Q3 FY14 to Q3

FY15. The tubes business grew from Rs. 34.4 crores to Rs. 32.8 crores but the EBITDA margin did grow substantially from 5.5% to 7.1% which is mostly on the back of increased CGW sales which has resulted in margin expect tubes growth and margin expansion on the top line and bottom line to persist for the next few quarters. Pre-engineered building subsidiary grew from Rs. 97.9 crores to Rs. 106.7 crores, EBITDA margins are mostly stable at 8.8% to 8.5%.

Industrial components business grew from Rs. 13 crores to Rs. 15.7 crores for the quarter and our EBITDA margin also has gone up from 12.7% to 14%. Our environment business is one of the new divisions of the company and has grown very substantially but the loop it is of a low base, so from Rs. 2.2 crores that division has gone to Rs. 6.8 crores for the quarter. However we have now completed several landmark projects including projects using technology such as demineralization plants, desalination plants, and effluent treatment and zero liquid discharge which we believe positions this division very well for further growth.

On a segment composition to entire revenue basis, Pennar Engineered Building Systems and Enviro Systems and project shares of revenue will increase further as their growth rates are higher than the company's growth rate. The tubes division will maintain its revenue share and will consistently continue to improve its margins as the shares of CDW Tubes, ERW Tubes continues to rise. The steel products business which is the legacy business of the company will continue to decline revenue share however we do have some initiatives we are undertaking in order to ensure that the revenues and margins are sustained for the medium to long-term in this business division and we can talk about that a little bit during the call as well.

The steel product business in the quarter received major orders from Larson & Toubro, Thermax, Cethar and Hamon in electrostatic precipitators. We also received a larger order of sheet piling from Larson and Toubro. Repeat orders from Toshiba, Hyderabad Batteries, IFB and Luk India have also boosted our margin profile for this business. Our outlook for this business is to increase our share of business from existing customers, improve our market share but we would like to invest into special grades technology which is a much more nascent field, much less competition present in that field. Our entry into special grades will ensure that we will see revenue growth and very significant margin growth, special grades typically carry double the margin of the normal grade CR products that we have. We are targeting a very significant revenue increase for this division next year.

As I mentioned our tubes division has done well on a margin basis while we do see a decline on the revenue from Rs. 34.4 crores to Rs. 32.8 crores we see this trend reversing in Q4 and we are very confident that with a new capital expenditure that we have and a new capital asset that has been built up, the new CAPEX has come online in December of this last year. We fully expect our revenue in Q4 to be higher and our margin growth also to continue.

Industrial components division has received multiple new orders, we have added Xylem, FNSS and Firestone as new orders and these are all export orders which are at very high margin. Hydraulics capabilities continue to grow and we expect this division to drive high revenue and high margin growth in the next quarter and also for the whole of next financial year.

Our systems and projects division comprises of railways and solar business, both businesses we have a very aggressive outlook for them. The railways business currently has an order book of about Rs. 90 crores and compared the last financial year to this financial year it has grown at a very large double-digit growth. For our solar business we currently are executing major orders for Auzure Power, Mahindra, Larson & Toubro, BE Electric and Enrich Energy. We also expect to gain more orders that are going to be booked in this month which we could conceivably even service in this quarter itself. So we are very bullish on the systems and projects division and we think that the revenue growth will continue to come and also margin growth.

PEBS has done well for the quarter, the sales stood at 107 crores, several repeat orders from Larson & Toubro, Ultratech, Etco Denim and others and we have very aggressive plans for growing this division as always and we have strong order books for this business division and for the foreseeable few quarters we expect growth in this division to continue. Pennar Enviro has as we said we have just started off in this business division, in the last quarter we booked orders from Dhunseri Petrochemicals, United Sprits, JSW, Biocon India and Parker Hannifin. We believe that several of these are actually repeat orders so we continue to have high hopes for this business division and in the next few quarters it should record higher growth.

With that I would like to hand it over to the moderator for questions. We can answer any questions and if any further detail is required on any of these numbers we can get into that. Thank you.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vaibhav Gupta from SKS Capital and Research. Please go ahead.

Abhijeet Subhankar: Hi, Abhijeet Subhankar here from SKS Capital, a couple of questions. What is our current order book in the railway segment and PEBS division? And secondly, where are we in terms of the listing of our PEBS division?

Aditya Rao: Thank you. So the railways division comprising wagons and coaches currently has an order book of about Rs. 90 crores which we expect to service in the next six months. As regards the PEBS IPO, we are in a quiet period right now so I will unfortunately not be able to provide much detail. I can say that the order books are strong and growing and as per as your status we are exploring the listing of subsidiary and as we have more news on that we will be able to share with you but the process of evaluating that continues.

Abhijeet Subhankar: Okay. But is there timeframe for the same sir?

Aditya Rao: There is but unfortunately because of the quiet period right now I will not be able to get into full detail about exactly what the timelines are. I hope to have more information on this for you soon.

Abhijeet Subhankar: Sure. And at the December what is our consolidated borrowing number if you can share that?

Krishna Prasad: Well, total consolidated figure on a funded basis is Rs 100 crores.

Abhijeet Subhankar: No sorry sir, I missed that.

Krishna Prasad: On consolidated basis for short-term it is Rs. 100 crores and Rs. 40 crores is long-term.

Moderator: Thank you. The next question is from the line of Levin Shah from Valuequest Research. Please go ahead.

Levin Shah: Sir actually my question pertains to the tubes division, now last time around you had said that we are going to see a double-digit growth this year into the tubes division but if we see the nine months performance the growth has been muted at around 6%-7%, so does that mean in Q4 we are going to see a very larger quarter as far as tubes is concerned?

Aditya Rao: Yes, we are actually hoping for the new capital assets, basically they have expanded capacities in CDW tubes in the manufacture of mother hollows we were expecting that to come in October for us to go through trial production and to stabilize in December. The line has now stabilized and we are seeing further growth, we will retain our double-digit growth target for this financial year because we are seeing the new growth from the new plant, from the new capacity come in right now. And not only will we see revenue growth we will also see margin growth because all of the growth virtually is going in CDW. So in the last month itself we have had an almost doubling of our CDW volumes and we think that is going to have a very significant impact on bottom line.

Levin Shah: Okay. So this quarter the performance can we say that it was muted because of capacity constraint?

Aditya Rao: Yes, exactly right, we were at capacity for our tubes and we were unable to increase revenue, we would have been able to had the capacity come on a little earlier but it has now come online and we are confident of increasing revenues substantially, in fact for all of next year we will have a very aggressive growth target for tubes.

Levin Shah: Okay. And my second question sir is on the Enviro side, last quarter on the last call you said that you have an order book of around Rs.60 crores, am I right on that?

Aditya Rao: What we have is a total orders booked number last quarter would have been 60, that number has now reached about 85 crores, total orders booked but we have serviced some orders in that already so the total unaddressed order book is about close to 45 crores right now.

Levin Shah: Okay. So last quarter we had Rs. 60 crores of total orders and the executable in this year were 40 crores if I am right, so this quarter we have executed only Rs. 7 crores worth of orders so does that mean that in Q4 we are going to see execution of 30 crores?

Aditya Rao: We will probably not be able to reach a 30 crores number entirely, there have been certain delays in execution and we are going slower on some projects where we believe that it is better for us to maybe perhaps look at execution in the first quarter of next year but we will see a substantial amount of growth. For the year in question we are looking at very high double-digit growth for Penner Enviro.

Levin Shah: Okay. And sir my second question is on the capital employed in the business, so can you give us a breakup of capital employed in each of the segment?

Aditya Rao: Let me give you an overall picture as such, the total capital employed in the business is close to about 400 crores and the PEBS business has a total capital employed of about Rs. 110-120 crores, the environment business has Rs. 10 crores and the remaining would be Rs. 350-360 odd would be the standalone company. We do provide divisional ROC numbers but as of right now it won't have a capital employed breakup division wise because several divisions share assets. For example our CRSS business and our railways business to share assets, tubes also depends in some element of CRSS capacity but we do give investors a return on capital employed number and we do give that number. We will be able to provide this for you soon after the call; we will provide a note to you on this.

Levin Shah: Okay, thanks a lot. And sir my second question is on the PEBS division, so last quarter we had an order book outstanding of Rs. 350 crores and that was executable in next 5-6 months so during the quarter the growth has been muted if we compare the last 8-10 quarters, so what is the outlook on that segment particularly?

Aditya Rao: Unfortunately as I said since we are looking at an IPO in PEBS I would not be able to give as much as I would like to give, and I will unfortunately not even be able to provide you order book but I can tell you that order book itself has grown, the revenue numbers also have grown, but certainly not by as much as we had wanted but as we go through the IPO process we can definitely tell you we are confident of further growth in this division and as we move through this process I think we will try to give you more clarity on PEBS but it remains one of the best performing divisions in Pennar Industry on any measurable vertical, whether that is revenue growth, EBITDA, return on capital employed, on a cash flow cycle we are very bullish on PEBS. We will unfortunately not be able to give you the numbers to back this up right now until we move forward.

Levin Shah: Okay. Any timeline on that sir?

Aditya Rao: Again, the Board has taken a decision to review, we have had a last Board meeting where the status was reviewed by the Board and also that but I can say they are moving forward on those aggressively.

Levin Shah: Okay sir. Sir and my last question pertains with the debt on the interest cost side, like if we see throughout the year our debt has been constant at around 140-150 crores put together the long-term and the short-term debt, but if we look at the interest cost, the average cost of borrowing comes out to be around 16%-17%, so is my understanding right, do we have a high cost debt or I am missing out something?

Aditya Rao: That is very good question, our total long-term and short-term debt is still Rs. 142 crores, I will give this to our CFO to explain why the interest charges are higher in this quarter, our average cost of funds is actually very good, is around 12% but why the higher interest charges I will just hand it over to our CFO.

Krishna Prasad: We are exploring the securitization of our account receivables and were able to strike some success during last quarter, we are able to have receivables discounting in customer limits. So a major breakthrough has come from Toshiba and L&T where we are able to discount their account receivables in their limits. Now some cost may be incurred to that extension but we are able to maintain the cash flows, so it has improved our cash flows but there is a slight increase in interest cost to that extension. But going forward, we go on exploring how to securitize the total AR because in this type of dynamic situation it is better to have cash in hand rather than waiting till the due period is over and then following up.

Levin Shah: Okay. So you mean to say it will continue going forward also?

Krishna Prasad: It will be more or less will be maintained.

Levin Shah: Okay sir. And what is the receivables outstanding as on date sir?

Krishna Prasad: On standalone basis it is around Rs. 180 crores.

Levin Shah: And on the consol basis sir?

Aditya Rao: For the consolidated basis you can add about Rs. 60 crores to that number, both companies are typically operated between 2 to 2.5 months receivables metric and our goal is to bring that on further down.

Levin Shah: Okay. And sir how much of the securitization was done during this quarter, any picture of that?

Aditya Rao: Entirely was done in Q3 itself so as Mr. Krishna Prasad has mentioned we believe cash flows focus is one of the most important metrics we measure ourselves by. So while the debt in the company has not increased, the reason for the higher interest cost is that we have factored L&T receivables and also Toshiba receivables. So we believe that this will moderate as we collect that revenue coming in and we believe it is a good thing for the company. Essentially we are financing growth whether that be capital expenditure, whether that is working capital, the revenue growth for the company all of that is being financed through our own internal accruals and through our own cash flows. So this we thought is a very effective way for us to get our receivables earlier, the bargain is that the interest cost would be higher, not this high continuously but a little bit higher than what it would be and the factoring is also being done at about 11.5% so there is no high cost debt in the company.

Levin Shah: Okay. And sir can you quantify that, the amount that you are securitizing?

Aditya Rao: About Rs. 20 crores.

Moderator: Thank you. The next question is from the line of Janakiraman from Franklin Templeton. Please go ahead.

Janakiraman: Initially you made a remark that order book continues to be quite strong specially the accretion to the order book. If I look around, the industrial activity does not seem to be all that strong so where are you getting these orders from other than of course railways where it's quite evident?

Aditya Rao: Thank you. We do believe that the bottom has been met, let me talk to you individually about each order book that we do report. So solar business reports on order book, our current order book for solar is extremely strong at about Rs. 60 crores and we expect it to in fact grow further. The market for solar is strong and continues to grow, there are several large players including L&T, Mahindra, Azure, others actually who are executing large scale projects and with the new Telangana policy coming out we are quite confident of further growth in this business. So yes, the macroeconomic picture may not appear to be that good but the picture for solar is excellent in my opinion and that has driven rapid order book growth and also revenue growth in this quarter for that division.

For railways, we believe that our coach order book will continue to grow strongly, we are very confident of further growth there because the integral coach factory themselves have very strong expansion plans, very aggressive growth plans next year as well that they expect 30% to be their target which is what they have told us, their internal external targets might differ but we are gearing up, we have in fact increased capacity at our Chennai plant and set up of whole new factory for this side manufacturer or side walls was for ICF and it is our belief that we actually have a lot more opportunity in this space and as much capacity you build they should be able to service it. So we have a Rs. 96 crores total order book in railways and we fully expect this to grow.

On the wagons front, as you would know until for the last two three years the picture has not been good but however we have seen an opening up of wagons starting about 3-4 months ago. So Q2 was very strong in wagons, Q3 not so much but Q4 again wagons have come in very strongly. So we believe this will persist and so for our systems and projects division, railways and solar we are bullish for this year and for next year. The other divisions report an order book which is our engineered building systems, PEBS and Pennar Enviro, I will unfortunately will not be able to give you a lot of order book details for PEBS but I can tell you it has grown. And yes, it is a challenging environment but PEBS is a very diverse technology subset which includes high rise buildings, pre-engineered buildings themselves which are industrial buildings, commercial buildings, residential buildings, low cost housing, site offices, and also engineering services now. So the combination of all of that has resulted in substantial growth in this quarter compared to last year and also on the sequential quarter-on-quarter basis and we are expecting this to grow further. Our environment business is very young right now so obviously it will grow, we are in the process of establishing our credentials right now and we have done a good job I believe in getting some good customers and including L&T to JSW, Sanofi Pharmaceuticals, one of the largest pharmaceutical companies in the world. We have done a good job of getting the credentials into the company so this division also will continue to grow. So those are the divisions that report an order book and so my attempt has been to answer your question that yes even though the macroeconomic picture may not be extremely attractive because of nuances of our businesses we will continue to see growth across all of our businesses which report an order book.

Janakiraman: Right, great. Just to understand, in solar what is your scope of work, do you build those steel lattice which lies below the panel?

Aditya Rao: That’s correct sir, what we do essentially is we design, engineer, manufacture, and offer the site erection of module mounting structures as they call them. Now this is a structural thrust framework on which the panel sits, it is a tremendously engineered product so whether you are using thin film or crystalline panels, the location of the site, the soil load baring capacities, the undulations of the land, multiple factors had to be taken into account to provide a well-engineered and well optimized solution. It is not akin to looking at the solar EPC business which has its own share of problems but we believe we are the dominant player in this field, I am not aware of any other player in India which is larger than us, we think we have over 20% market share on this business which will persist and what we do essentially is a three month project effectively where we take an order, we design engineer the structural system, we manufacture it and we erect it at site.

Janakiraman: Got it. One of the slide also mentions that the steel product segment which is your legacy business as you mentioned and you also mentioned that it is probably going to grow at a rate which is relatively slower than the other divisions, but for that division you are saying that outlook remains strong in the near-term, 30% growth for the next year, what makes you so confident?

Aditya Rao: Again a good question, so there is a slight difference in the way we are looking at division now, up until last quarter we had really expected it to stagnate in terms of revenue share, so it would have, it would retain it's obviously the revenue, it would retain its margins but further growth would be difficult. However, in the last couple of months if you notice only two business verticals of the company have degrown by a very modest amount but still degrown by about 1%. The reason that has happened is the steel prices have actually crashed so we have now decided that we cannot stay in the commodity business so we decided to enter the special grades business. We have reduced at a board level, the reason we are projecting growth in this business division now which is different from the picture that has been given up till now is that the special grade business which includes grid such as 16MN, CR5 and C60 is a niche business which can add about we can enter this business there is not that much competition present in it and margins will sustain for the mid-term for sure. We want to do some capital expenditure and expand into this business in order to ensure that this business remains stable and margins expand a bit. As I mentioned on the introductory call as well, special grade products have double the margin of our regular products so we now believe that this division will see growth next year.

Janakiraman: Right. And CDW growing faster within the tube so where is that demand coming from, is it mainly autos?

Aditya Rao: It is mostly automotive sir, I think in the CDW tube side we have several new customers that have been added over the last quarter and primarily we service the automotive space in this segment.

Janakiraman: Can you give me an idea about, so you said you are running at full capacity at CDW so can you give me an idea about what is the size of incremental capacity that is being added in December that you mentioned?

Aditya Rao: Yes, I can. So until December we had a total capacity in CDW about 500 metric tons and our run rate was close to about 450 metric tons, we have now expanded that to close to 800 to 900 tons and further capacity expansion also is going to come online this month. Overall by the end of Q4 our capacity in this business would be close to about 1000 tons of CDW.

Janakiraman: This is per month?

Aditya Rao: Correct, yes per month.

Janakiraman: Right. And lastly, what kind of capital investment do you have on the cards for current year and year as per your budgets?

Aditya Rao: We have a steady state CAPEX of over Rs. 50 crores which goes on through the year. Typically it is invested into new products, maintenance CAPEX and also linear expansions in terms of capacities. We believe that for the rest of this financial year we have about Rs. 10 crores to be spent and for next year the steady state CAPEX as I mentioned would be about Rs. 30 crores, we intend to grow further also, we have a lot of exciting opportunities as I mentioned, special grades and other. When you bring this capacity in our overall revenue that we intend to add is close to 20%, so I don't have an exact CAPEX number for you in next year but I do have a steady state CAPEX which is about Rs. 30 crores.

Janakiraman: Right. Sorry let me squeeze in one more question, on this railways you mentioned that still there are a few new opportunities as well, for example ICF is not done the manufacture of these new passenger coaches, all of them are coming from Kapurthala. So do you plan to get into the RCF market as well?

Aditya Rao: RCF is currently serviced by a competitor EC, we have competitors in ICF as well, but we believe we are the larger ones. We currently have plans and some kind of lead generation activity going on for RCF Kapurthala but right now the majority of our coach revenue is ICF.

Janakiraman: Okay. But in the context of railways what you are saying is even ICF will see fairly attractive growth in the medium term, is it?

Aditya Rao: My understanding sir is that ICF is larger than RCF, at least for our products. We typically feel that our growth next year will primarily be because of ICF and some amount because of RCF.

Janakiraman: And any expansion in the product categories within ICF beyond let's say critical items like side walls?

Aditya Rao: Absolutely sir, I think as of now our product category has grown to a lot of products including the under frame assembly components, the holy grail for this so to speak for the company would be under frame assembly for the new Bogie plant for ICF. If we can get into that I believe that we have a very good chance of substantially improving our revenue and profitability for this business division, even further.

Janakiraman: And is ICF willing to outsource that?

Aditya Rao: Yes, we believe they are.

Moderator: Thank you. The next question is from the line of Levin Shah from Valuequest Research. Please go ahead.

Levin Shah: Sir, you said that in the steel products business you are entering into the special grade steel, so the legacy business which is the core commodity steel business that will continue to de-grow but the special grade will add up to the topline, is that right?

Aditya Rao: That's correct. To give you a breakup, the specific product category we are talking about is cold rolled steam strips which actually was the original business of the company, so at the beginning of the financial year it was about Rs. 29 crores, now it is about Rs. 21 crores. We are not that disappointed that this division has gone down because firstly the margins are diverse, I mean the CRSS business makes the worst margins. However, the additional special grades gives us the ability to make 15% margins in this business, so what we will see and what our hope is that we see some stability maybe even an increase of the regular CR business on 21 to 25 but we will obviously not be allocating any capital to make that happen, if it happens it happens, if it does not we are okay with that. But the special grades business we should be focusing on should be able to add at least a 1000 tons so in the number basis we think it will add about Rs. 100 to Rs. 150 crores hopefully in the next financial year.

Levin Shah: Okay. And how much was this special grades contribution in FY14, was there any contribution or…?

Aditya Rao: We are actually not present in special grades, very limited quantities of C60 but the grades we tried to enter into right now would be in a much larger scale. So we are probably doing over 40 to 50 tons, a very modest amount really frankly, about Rs. 40-50 lakhs amount I think you can take is what the billing would have been. But as I said the margins for this business are about double, if you are looking at 7% margins for the regular cold roll steel business special grades carry about 15%.

Levin Shah: Okay. So next year the Rs. 100 crores or Rs. 150 crores of top line that we are going to add would come at double-digit margin right?

Aditya Rao: That is right, yes.

Levin Shah: Yes. And sir my second question is on the tax rate, so even during this quarter we had a tax rate of 37% so on a steady state basis what would be our tax rate for this year and the next year.

Aditya Rao: Yes, to explain the both the income tax and DTL in deferred tax asset liability in detail I will just give it to our CFO.

Krishna Prasad: It more or less remains constant, next year also it will be around in that 34% odd. And most probably next year also this quarter whatever we are reporting it will be called.

Levin Shah: Okay. So for this year as well as next year it would be around full tax rate 34%-35%?

Krishna Prasad: Yes, more or less.

Moderator: Thank you. The next question is from the line of Rahul Kohli from Indianivesh. Please go ahead.

Rahul Kohli: My question was regarding the PEBS, you said the order book has grown substantially but we see that sales growth has not come in this quarter so any specific reason for that? And my second question was regarding the same segment, as we are planning to make our presence in the Northern India market so how you see the competition there?

Aditya Rao: So as I said PEBS going into an IPO I will try to answer your question the best way I can, for the quarter in question we have seen growth, we have grown by about 9% which is very modest so I understand your spirit of your question which is that PEBS is a high growth vertical so 9% is obviously very moderate but the reasons for that typically I will not be able to get into that in detail but we do expect to meet out targets whatever has been mentioned in the last con call and in our press notes we are very confident of meeting our targets for this financial year for PEB. The order book has grown, the exact number I am told I will not be able to give you but I will try to get you more information on this after we made all the disclosures that we need to but I can say that we are very bullish about this business. North Indian market for this sector is bigger than the South Indian market, our entry in to North India is very delayed, definitely it is something that is eminent and we have to get into it very soon, I will have more on this for you in the next few weeks, as of right now I am afraid I cannot get into full detail of exactly what we are planning but to reiterate we are confident of good growth in PEBS. There has been growth on this quarter about 9% and if you see on a sequential quarter basis it is even higher, it is actually close to 17% but these are very modest numbers compared to what PEBS has seen before, we have typically seen 40% and 30% growth. There are reasons for this but I can leave you with a comment that we are confident of continuous aggressive growth on this.

Levin Shah: Sir, on the competition front in PEBS, the southern market who your competition are right now and in the northern market also do you see any competitor like one name is Richa Industries is there, so is that your competitor in Northern market?

Aditya Rao: So when we speak of PEBS, PEBS is actually present in three discrete product verticals, one is the pre-engineered building itself which is probably responsible about half the revenue, the other business divisions are our custom design structures which comprises solar telecom towers, cold form buildings and a wide variety of other engineered structures, even such as high rise buildings and commercial towers. So we have nobody who competes with us in all verticals, the closest thing our competitor would be a company called Kirby Building Systems, they are also a strong player in the pre-engineered building space and they are about twice our size in this field, they are present in North and South.

Levin Shah: Okay. And in the steel segment, next year revenue target is quite high like 30% compared to the past growth and you have given reason for that, so do you see sustainable growth in steel business at special grade going forward or is it like one time growth you see in the next year?

Aditya Rao: There will be substantial growth, to give you an example…

Levin Shah: Sustainable I said sir.

Aditya Rao: Yes, there will be sustainable growth in this division, the reason I say that is our competitor in this business really the only other strong player present in the special grades business is Tube Investments and their monthly output is about 5,000 tons in this business. So on a yearly basis they do about Rs. 400 crores to Rs. 500 crores. Our attempt will be to take market share from them and also we think the market for special grades is also increasing at a very rapid clip. So that will drive growth in the coming quarter, in the coming financial years. So we do not think it is a one off that we reach at a certain turnover level and we believe that this CAPEX will allow us to scale that division. But this CAPEX is currently underway we have just gotten Board approval for it, as we go ahead with our plans to implement it and we are very quick with CAPEX, we typically do not take too much time to get this up and running. We definitely will see substantial growth in this business that is the reason for us projecting them.

Levin Shah: What are the CAPEX numbers, what is the total CAPEX in this particular segment you are planning or which is underway?

Aditya Rao: So we will be adding capabilities in hydrogen annealing, also in HRCR precision slitting and also some incremental improvements to our existing plans in order to cater to special grades. That will get us to around Rs. 15 crores in CAPEX for this business.

Levin Shah: And any other segment you are planning CAPEX right now or which is underway?

Aditya Rao: Virtually all of our businesses are growing if you look at even tubes the other division which has been stagnant in revenue but grown a lot in terms of margins, we are planning further CAPEX. So each of our divisions will see CAPEX going in in this financial year, we will be funding this CAPEX completely through internal accruals, we have no plans to raise debt. We think the cash flows of the company are strong enough to finance both growth and CAPEX to around internal accruals.

Moderator: Thank you. The next question is from the line of Deepanker Sati from Athena Investment services. Please go ahead.

Prashant: Hello, this is Prashant. Actually my question was about Enviro, earlier you had said that you would be reaching a Rs. 100 crores run rate for the full year by the end of FY15, do you still stick to that like is it going to happen?

Aditya Rao: 100 crores run rate for the whole financial year would be something we want to do that, that is our target for the next financial year, however, as I had mentioned we have seen some amount of moderation in terms of offtake, so though our order books are strong we are being very guarded in the way we fulfill this so in fact we have taken several marquee customers and every project that has been completed with our customers being completely satisfied. So in this sense our references are much more important, it is a reference building exercise so we are hopeful of reaching a high numbers, precisely that number whether we will reach I will be unable to give you that right now but order books for the company are strong and we believe that there will be consistent growth, we have grown at 200% this quarter, we think high growth rates will continue.

Prashant: And how much is the order from one client if you book him?

Aditya Rao: It varies a lot depending on the kind of project, normal effluent treatment plants are actually very small, they can be as small as Rs. 1 crores or Rs. 2 crores. Desalination plants can be substantially higher, we are currently bidding on several projects in desal which are around Rs. 10 crores to Rs. 20 crores. Demineralized water plants also we are executing a plant for JBF one of the largest petrochemical companies in India right now which is about Rs. 11 crores. So across verticals there is a lot of variance in terms of the exact order size, we also have specialty additives as a business division in Pennar Enviro and those order sizes are small, the margins are very good.

Prashant: What did you say, what were you doing for JBF?

Aditya Rao: We are building demineralized water plant for them in Mangalore.

Prashant: Okay. And what is a typical turnaround time for your Enviro projects?

Aditya Rao: About 6 months, about twice that of PEBS.

Prashant: Okay. So your complete order book, let's say if you are doing like Rs. 45 crores order book right now so I can expect new Rs. 45 crores order book coming in like six months from now and then you will be touching Rs. 100 crores turnover, right?

Aditya Rao: That is our target, yes.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir I wanted to understand if you can share some numbers in terms of putting of orders in couple of other earlier conference calls you did mention high number of quoting per orders in Pennar Enviro. So if you can just give us some sense in terms of numbers there, since fourth quarter of the year is generally a very high number in this business so if you can just give some sense there.

Aditya Rao: So, I am sorry so you would want to have the order book for Pennar Enviro or?

Amish Kanani: Yes, sir that you have mentioned which you noted as Rs. 60 crores from that is taken, but earlier you did mention what is the pipeline of orders for which you are bidding kind of a thing if you have some numbers there.

Aditya Rao: We do actually but so the number of quotes we have out there is a very large number, it is in excess of Rs. 500 crores but we typically believe that only 10% of this would convert in a given quarter. And we may not win all of those orders, we will win a very substantially high percentage of it but we will not win all of those orders.

Prashant: Sure. And so what would that number be say six months back for September quarter, has this pipeline doubled?

Aditya Rao: It has increased about 50%. That is our order to be specific, our order book at the end of last year to the end of this quarter has increased by about 50%.

Prashant: Okay, the order book per se?

Aditya Rao: Yes.

Prashant: And any update on the hydraulic cylinder business which you had acquired?

Aditya Rao: Yes. We have now completed integrating it into our Chennai facility, so it is a dedicated plant now and dedicated facility that are available. We have product development underway for a lot of the major construction equipment manufacturer in India, we have picked up orders so from Bailey and some US companies. We have also started exports in it. So for a company called FNSS we are making their entire security solution so that includes the wedge barrier, their entire hydraulic system and the drive train and power train. So it is high margin business, it is engineering, it is in-depth systems engineering and our hydraulics division is part of that. We expect this division to do well next year but as we ramp up slowly we think next year our target for hydraulics overall would be in the Rs. 20 crores range, we will hopefully beat that but that would be a conservative target.

Prashant: Okay. So what would that be this year sir, is it below Rs. 10 crores?

Aditya Rao: It is below Rs. 10 crores unfortunately, this year I think it is around Rs. 7 crores.

Prashant: Okay. And then that's why you said margins are probably double than the normal business margin?

Aditya Rao: Margins are very good, margins are close to 26%-27%.

Prashant: Okay. And this is operating margins right?

Aditya Rao: That's correct.

Moderator: Thank you. The next question is from the line of Levin Shah from Valuequest Research. Please go ahead.

Levin Shah: You said on the solar side of the business that we basically make the mounting structures, so with government having an aggressive target for the solar power as a whole, do we see a substantial opportunity in this segment and do we cater to the kind of mega projects let's say 500 or 1000 megawatt kind of project?

Aditya Rao: So you are right, I think there is a big push to drive solar installations, there are two things driving the solar market right now, one is the national solar mission the JNNSM as we call it which has a target of about a gigawatt this year. There are also a lot of state policies that have come out, we are currently executing projects for example in Rajasthan, Chhattisgarh, we have just completed projects in Karnataka and UP, we are taking up projects in Telangana and AP and Karnataka again in the next few weeks to month. So growth will come in this business, quite frankly we are refusing orders, we are actually very-very picky in terms of the orders we pick in this business because there is a lot of market out there but there are also a lot of players out there who may not be in the best situation as cash flow wise. So the one thing we will not do is compromise on cash flow so all of our customer book, if you look at our order book also it is the who so are the best solar developers out there, L&T is a big customers; BE Solar, a multinational Germany company is our customer; Mahindra is our customer; we are also executing for Azure, one of the larger companies in India and the trolley number two in our analysis in solar development. So these are the quality of our order book, we have no receivable situations in this, we typically work on a two month operating cycle in this business, so if that fits up we take the order and we execute it. So we believe that they will regrow but we will continue to pick and chose our orders, this division could be much larger if we decided not to be fiscally responsible but for us the solar division has grown very aggressively on the back of good orders what we see from good customers.

Levin Shah: Okay. Sir can you give us any sense about how much of an order to we get, let's say if we want to put a plant of 10 megawatt of the solar power plant so how much would be the typical order size for us for that?

Aditya Rao: It varies a lot based on site condition, whether it is crystalline technology or amorphous silicon technology or CDTE but I will give you an answer, it is you can say on a blended average we typically get about 50 lakhs per megawatt.

Levin Shah: Rs. 50 lakhs per megawatt.

Aditya Rao: So consider it 10%, between 8% to 10% of solar power plant would be our scope.

Levin Shah: Okay, 8% to 10%?

Aditya Rao: Yes.

Levin Shah: Right. And we do address the market of let's say ultra-mega projects like 500 to 1000 megawatt kinds of projects?

Aditya Rao: Yes, we do. It is not too many of them have come up right now, typically when it is that big our customers typically tend to divide it as well, we have the capacity to service about currently the solar capacity for the company is about 100 megawatts a month, so the largest orders we have executed so far are for Tata Power we have completed close to 50 megawatt plant, for Azure Power we have done about 140 megawatt and another 30 megawatt. We feel that we will get to the 300-400-500 megawatt range soon, but again it will depend a lot on the customer, we are bidding on some quite frankly on some 300-400 megawatt projects.

Levin Shah: Okay. So do we have any CAPEX requirement for that like next year or in couple of years?

Aditya Rao: Yes, there is. We have actually expanded capacity twice in the last quarter, this typically means the addition of role forming and dye-parching stations, and we will continue to fund that out of the cash flows this business generates.

Moderator: Thank you. The next question is from the line of Chiranshu Kumar from Girik Capital. Please go ahead.

Chiranshu Kumar: Sir I just wanted to understand on the PEBS side of the business, like how does the business function when you execute any particular let's say construction of warehouse or anything for any of the big clients. So does that entire thing come on your books first or like I wanted to understand the functioning of that business?

Aditya Rao: I understand. So typically what we provide is the building shell, if you are ready to use construction terminology we would probably get to the bear shell that would be what we would provide. What we essentially do is we design engineer, manufacture, direct engineered building systems which can be used as factories, warehouses, commercial centers, essentially a very diverse range of products. Our orders typically come from the people who are developing these projects so not so much EPC companies but say industries, factory owners, people such as JSW, Larson & Toubro, Ultratech, these are the kind of people who execute these projects and give us the orders. So we design engineer the structure, the external chassis and the connecting frames, we manufacture them in our factory and we erect them at site, it is typically a three month process for us to go through once we get the order to complete the engineering, manufacture all the components and erect the building at site. We don't get into interiors, we don't do the heating, ventilation, air conditioning, we don't do the civil anything that's above the ground which is you can say the bear shell.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, you had mentioned earlier sometime in the year that you might do a turnover in excess of Rs. 1400 crores, now given where we are generally your fourth quarter is good, so is there any number that you can share with us in terms of some number that you think you are reasonably confident to share across?

Aditya Rao: Yes. I would call it guidance but whatever the numbers that we have given we had discussed about (+1400) turnover and EBITDA margins substantially increased over last year, we retained all those numbers, all those targets. We are in my opinion well on track to achieve those targets.

Moderator: Thank you. As there are no further questions with the participants I now hand the conference over to Mr. Aditya Rao for his closing comments.

Aditya Rao: Thank you. Once again I would like to thank the stakeholders for attending this call. We believe we closed on a strong quarter where we have continued to see overall revenue growth, most gratifying is the fact that we have been able to sustain and grow margins across almost all of our business divisions. We reiterate that our order books are strong, we are confident of further growth being achieved and the target we have set for ourselves for this financial year are achievable and we believe any major surprises notwithstanding we are well on track to achieve our targets for this financial year and to get prepared for an aggressive growth in the next financial year as well. Thank you very much for your time and we welcome any further questions.

Moderator: Thank you so much members of the management. Ladies and Gentlemen, on behalf of Pennar Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes).