"Pennar Industries Limited
Q4FY17 Earnings Conference Call"

May 19, 2017

MANAGEMENT: **MR. ADITYA RAO -- VICE CHAIRMAN AND MANAGING DIRECTOR, PENNAR INDUSTRIES LIMITED**
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MODERATOR: **MR. VISHAL PERIWAL -- MAYBANK KIM ENG SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Pennar Industries Limited Q4 FY 2017 Earnings Conference Call hosted by Maybank Kim Eng Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Periwal from Maybank Kim Eng Securities. Thank you and over to you, sir!

Vishal Periwal: Good Morning, everyone. I would like to thank the management for giving us this opportunity. From the Pennar Industries we have with us Mr. Aditya Rao -- Vice Chairman and Managing Director; and Mr. Krishna Prasad -- Chief Financial Officer.

We will start with the brief overview from the management on the gone by quarter and then, we will open it for Q&A. Over to you, sir!

Aditya Rao: Thank you, Vishal. And Welcome to all the Stakeholders of Pennar Industries to this Fourth Quarter and the Financial Year Conference Call for our Inventors.

We closed out a good financial year with a good strong fourth quarter where we recorded sales of almost 30% on our gross sales on a consolidated basis and 15% growth on a standalone basis.

For the fourth quarter, we achieved gross sales of Rs. 511.6 crores as opposed to Rs. 395.4 crores last year. Net sales of Rs. 465.3 as opposed to Rs. 352.4 last year which is a growth of 32%. EBITDA of Rs. 49.8 as opposed to Rs. 52.4 which is a de-growth of 5%. And a net profit of Rs. 18 as opposed to Rs. 16.3 crores which is a growth of 10.8%.

On a standalone basis, our gross sales were Rs. 312.0 as opposed to Rs. 271.4 crores which is a growth of about 15%. EBITDA of Rs. 32.8 crores as opposed to Rs. 24.5 crores which is a growth of 34.1%. And the net profit of Rs. 14.0 as opposed to Rs. 9.3 which is a growth of 50.8%.

The performance of the company is blend of course as most of you would know of the four business units that are in the standalone entity as well as three subsidiaries. What we will do is

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give you a brief over view of each business unit and subsidiaries performance and after which we will open it for questions from you.

So, the first business unit we will talk about is the Systems and Projects business unit, for the year end question we had about Rs. 197 crores in the gross sales and Rs. 180.5 crores in net sales. ICF continued to determine the major growth opportunities for this vertical, wagons did a lot better than we had expected while we have not provisioned for that kind of revenue growth. We ended up doing Rs. 70 crores in our Wagon business as well which is also a very good margin business.

The other business vertical in the Systems and Projects is Solar in which we had about Rs. 253.9 crores in sales and we had a lot of repeat customers specifically Greenko Energy for their Kurnool plant where they added 700 megawatts in a five - six-month period. One of the major, one of the major contractors who are working there for their Module Mounting Systems was us. We also provided design engineering erection other than component supply and also some AC and DC scope activity for Greenko. So, Solar continued to do very well and the combination of Railways and Solar which is in Systems and Projects business unit recorded extremely good growth, one of the highest growth in this among other business in this financial year and also for the quarter in question

For the Tube business vertical also performed very well. It recorded Rs. 180 crores of gross sales and Rs. 155.2 crores in net sales. Our CDW market share went up at 8% and with our new mills which are coming online and hence, we would like to inform our investors is that we have invested in a fair amount of capacity build-up over the last five months to six months and a lot of that capacity is coming online now as we speak. So, we have new strip galvanizing capabilities, we have added new hot dip galvanizing line. We have new role forming in Solar and also other Door and Window sections. And overall, we believe that all of those capacity expansions should result in high double-digit growth in access of 30% for this financial year. Accordingly, we have provisioned for that we have made sure that our current assets are in line with this kind of growth and Q1 itself of this current financial year we expect a lot of this growth to come through to the company**.** For the Tube business vertical to close it out we will also be starting this year our Stainless Steel Tube Line as well. So, the addressable market size for this division is projected to scale in a very fast speed.

Industrial Components, the next business unit, where we recorded about Rs. 66 crores in gross sales; Rs. 58.1 crores in net sales. We have added strong new customers our Hydraulics division specifically has grown by a lot and we expect that growth rate to continue may be

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even to accelerate in this financial year and accordingly we have taken steps to improve our capital assets in that vertical.

The Steel business unit which comprises our CRSS and CRFS our Cold Roll Steel Strips and forming section in these lines has also done reasonably well this year considering market conditions. They recorded a gross sales of about Rs. 356 crores, net sales of about Rs. 310 crores and we expect with special rates CR Line coming online strongly and further expansion which we want to bring in this business unit also will grow in next financial year. Specifically, CRSS we believe we will at our current level right now we have mange to execute 1,300 tonnes in this month which is a reasonably large growth compared to last year. So, even this business unit will add revenue and any revenue that is added will be added at a EBITDA margin of 12% or above.

That brings to the subsidiaries, specifically Pennar Engineered Building Systems, and Pennar Enviro, and Pennar Renewables. Pennar Enviro had about 15% growth in this year and recorded gross sales of Rs. 115 crores. It expects on the back of healthy order book to scale revenue further. While we did have double-digit growth this year, our growth expectations for Pennar Enviro are much higher. We were unfortunately not able to achieve our targets for this financial year primarily because of lower off take from our customers, we had the order book but we could not convert it to revenue. We expect that to be addressed in this financial year where with what we have as revenue to be record in the next few months, we believe continued order book growth and also revenue growth will be possible for us in Pennar Enviro.

In PEBS we had our highest ever sales of about Rs. 570.3 crores in gross sales. The EBITDA there was a moderation primarily because of higher raw material steel prices and the net profit there was moderation where we recorded Rs. 24 crores in PAT as opposed to Rs. 30 crores for the previous financial year.

Pennar Renewables is our Solar plant asset subsidiary, this is target of opportunity project we invested into because we had access to projects which high PPA. We have executed these projects and they are revenue generating profitable and good cash flows generating. But the board of Pennar Industries has taken a call that we are an Engineering company we expect a certain ROCE and expect a certain written IRR from our projects and while this project has a good IRR we have the intention to sell this subsidiary. Accordingly, we have invited bids over the last few months, we have taken through a due diligence stage and signed a term sheet as well. We have signed an MoU few days ago with a large Solar developer and we fully expect to close out the sale of this asset very soon in the next few weeks.

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With that, I would like to hand it over to the moderator for any questions you may have. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Ashwini Agarwal from Ashmore India. Please go ahead.

Ashwini Agarwal: I just wanted to dig deeper into Pennar Enviro. So, you mentioned that your gross revenues were Rs. 115 crores. Could you share what your net revenues were and what was the EBITDA line in Enviro?

Aditya Rao: The net gross revenue was Rs. 115 crores in Pennar Enviro, the net revenue was Rs. 110 crores. The EBITDA was about Rs. 5 crores and the profit after tax was about Rs. 2 crores.

Ashwini Agarwal: Okay. And what does the order book in Enviro look like?

Aditya Rao: Currently, the order book we are sitting on Enviro is worth of Rs. 250 crores but we expect a lot more closures which will drive that out and these are orders are at operating margin of between 15% and 20%. The reason for the lower EBITDA I think, our EBITDA margin would have been closer to 7% and 6% and the reason for that is primarily because of very heavy fixed cost we have. We have a 100-member engineering team, one we intend to grow further as well. But our focus here is to get our prequalification's and references in so that we can over a period of time start completing with the L&Ts and the other Engineering companies. But from an operating margin point the order book in its entirety is very healthy.

Ashwini Agarwal: And by operating margin of 15% to 20%, you mean EBITDA margins or are you…

Aditya Rao: I mean margin after variable before fixed cost which is typically salary cost, admin cost are taken out that currently comprises close to 8% to 9% of the gross revenue which will moderate as we bring in scale.

Ashwini Agarwal: As your revenue scales up, okay. And one question, what are your CAPEX for 2018 and 2019 in the parent not in PEBS?

Aditya Rao: So, in the standalone entity we are now looking at over the next three year very sustained asset build up, specifically in our solar in our Railways and our Industrial Component businesses, our Tubes also will significantly scale up capacity. If you want a break-up of an absolute number we can take you through division wise but absolute number this year we would be

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looking at Rs. 40 crores, next year we would be looking at a slightly lower number Rs. 30 crores. But after that when Tube expansion kicks-up again, we will be looking at another Rs. 40 crores. So, you should expect between Rs. 100 crores - Rs. 110 crores CAPEX over the next three years, all of which will be met with our internal cash accruals.

Moderator: Thank you. We will take the next question from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Out of the Rs. 309 approximately net revenue in Steel products. What would be approximate revenue in Steel Strips and break-up between Engineering profile?

Aditya Rao: Okay. CRSS we have revenue of Rs. 219 crores and CRFS Rs. 137 crores, now these are gross numbers I realize the total comes to Rs. 349 crores or Rs. 356 crores the gross net. For net sales, I would predict about Rs. 190 crores of CRSS and Rs. 121 crores for CRFS.

Vikram Suryavanshi: Okay, sir. And basically, with our new specialized Steel grid we are expecting a growth in this segment apart from that is what we are expecting.

Aditya Rao: Yes, I think with a great degree of confidence I can now project that this business unit is going to show high growth in this financial year specifically driven by our special grade CR project which we commissioned last year but has now with our market lead generation activity has reached in excess of Rs. 10 crores per month. So, I think we are looking at adding a Rs. 100 crores of revenue just from this.

Vikram Suryavanshi: Okay. And can you give order book in terms of Solar and Railways basically?

Aditya Rao: Our Railways order book including our Side Well sets our Lavatories are under frame assemblies and other components is close to about Rs. 120 crores for Coaches. For Wagons we are at about Rs. 40 crores right now and for Solar it is extremely high as of right now, we are in the business of right now refusing orders right now but it is pretty volatile we are trying to we are putting close to Rs. 50 crores a month. At this point from an order book point all I can tell you Solar is its north of Rs. 200 crores and it can literally be anything you wanted to be. But we are very careful in terms of the orders we want to take and I think, for this current financial year we will see heavy growth. Once new CAPEX comes in we will build the order book. Do give us pass in order for Solar for this quarter we will have as we through this financial year by the end of next quarter we will have a very accurate number of exactly how much solar revenue we are going to in this financial year.

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Vikram Suryavanshi: So, in terms of systems and project a lot of growth is coming from Solar, I guess?

Aditya Rao: From Solar and Railways.

Vikram Suryavanshi: Railways, okay. Railways but already base has become much larger in FY 2017, so do we see from that base we can grow at slightly higher number in 2018 - 2019 also?

Aditya Rao: It is a good question, so Solar actually is actually higher than Railways. Solar's gross revenue was close to almost Rs. 266 crores last year and Railways was Rs. 197 crores there are again gross sales numbers. Railways will grow on the back of ICF and some other new product development that we are doing our MCF also has opened up as an opportunity and as a customer. Solar the growth opportunities are vast. As I said before, literally every developer would be a potential customer for us and with GST coming in previously we had thought that it would be a hindrance and we would actually remove the MNRE excise benefit that we get from our customers. But what has happened and the decisions that has been taken in fact sustains the advantage that we have and the fact that we have a diverse set of businesses other than Solar allows us to be one of the largest providers of them continue to be one of the largest MMS providers. Consequently, order books are full it would not be an exaggeration to say that every large major developer in India right now is a customer for us and we are being very judicious in the orders we are taking we expect going forward also that this business unit should grow and Railways also will grow again. We also are undertaking a lot of CAPEX in Railways. We are expanding our capabilities in Chennai factory by a lot. So, I think you should continue to growth out of Systems and Projects.

Vikram Suryavanshi: Okay. And going ahead, obviously, because of higher Steel prices our inventory has increased substantially and were we able to control our receivables but how would we look at the inventory levels going ahead, do we see the correction in prices or at least in absolute number do we see that some money can be freed up from the inventories going ahead?

Aditya Rao: So, inventory is driven up by two factors, one factor accounts for inventory increase of course revenue growth itself. Since, we are looking at very high growth this financial year we do expect inventory to increase a little bit. But the reason our inventory levels are high right now we are currently sitting in a standalone entity at about 26,000 tonnes moderated from March what the number was on March if you look at the balance sheet revenue. But in PEBS we are sitting on close to 20,000 tonnes of inventory. The reason for this again has been a massive steel prices increase from October through to February. Now, those increases are moderated in fact even flatten out, we do not need to hold on to that much inventory. So, the next few quarters even though this revenue growth will be there, we expect our inventory to actually

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decrease substantially almost 10% to 20% is what we project in terms of inventory decrease, that is a good thing to happen and we will continue to have high growth even though inventory is going down a bit. So, you should expect us to go in Pennar Industries from 26,000 tonnes of inventory to closer to 24,000 tonnes and in PEBS they would be even more dramatic with the reduction.

Vikram Suryavanshi: Okay. One last question, in GST almost I think the numbers are out. So, are we going to have anyway impact on seeing any change in our business because of whatever happening in GST?

Aditya Rao: We have undertaken large multiple studies in fact to measure the precise impact that GST will have on us. Since, the numbers have come out we can now intelligently talk about whether it means a price increase, whether our customers will expect the price increase, whether these increases under indirect taxation structure being put in, FX demand scenario for our customers, all of this is are things we are evaluating right now dynamically. On an overall basis, I would say in the short-term it should not be a very powerful impact to us but in a longer-term we believe it is a huge, it hugely beneficial. Some of the area where we believe we will immediately see some benefit is in Solar, also in warehousing for PEBS, we believe that warehousing is going to go through a sun rise period in the next few years once the GST comes in, we already have a lot of orders. Nagpur we believe is going to develop into a massive warehousing hub. So, I would say we are reasonably bullish about GST coming in over the medium-term to long-term. In the shorter-term there may be certain effects but we do not expect those to materially affect our revenue by a lot. I would not even say that we are going to see demand contract because of it our order books are logged in, Solar has logged in, automotive components we have a good idea where we are going. So, at this point we have nothing that that is going to indicate any detrimental impact because of GST.

Moderator: Thank you. Our next question is from the line of Vaibhav Badjatya of HNI Investments. Please go ahead.

Vaibhav Badjatya: Sir, just to follow-up on our discussion during last conference call, we had a discussion around ROCE and ROE. I just want to and update as to what management is thinking if there is a change in strategy to change the capital structure and finance more LCs through equity or book debt, so that our financial metrics might improve.

Aditya Rao: And I think speaking from our last quarterly conference call as well, post our conversation on the call and of course, offline as well, we have taken the steps to rigorously understand what our bank charges are. Essentially what our interest cost and bank charges which are not related to CCR and we have understood that the majority of those costs are coming in on a

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consolidated and on a standalone level on the LC opening charges that we have. We have since re-negotiated some of our LC charges with the opening charges dropping from to about 0.5% reduction. So, we have reduced by almost a factor of 67% of opening charges. More importantly, I think even the usage of these instruments is something that we will be revisiting over the course of this financial year. As we said, we expected inventory reduction, so non-bank, non-fund usage also should decrease on a very significant manner. What we project is a decrease in bank charges and interest charge also but specifically bank charges to decline significantly over the next few months and quarters because of reduction in our opening charges which is a discount on the card rates and also on the usage of this instrument, so that the way it would measure ROCE or more importantly the way it would measure what flows down to bottom-line improves a lot, so those are changes we have made and you would see these impacts in Q1 itself I think you would see significant impact. Thank you for conversation I think it was a good question, it was an example of how investors can add a tremendous amount to value to…

Vaibhav Badjatya: But even after this reduction do you think that the cost of opening LCs in terms of annualized cost will be lower than our say ROCE that we are generating or it would still be higher than the ROCE?

Aditya Rao: It will definitely be lower because it is now going to be one-third of the cost we had for the entirety of last year. So, our opening charges are 1.5% and we have reduced it to 0.5%. So, that is reasonably massive reduction, so that absolutely will have an impact. In terms of the exact impact on our EBITDA to determine what it does to ROCE that I think is a projection we will give you once Q1 is finished. But we definitely are seeing decrease.

Vaibhav Badjatya: And secondly, I think there are a lot of discussion some competitive advantage in Solar business under the tax structure that we currently we have and seriously under impression that this advantage will go away once GST comes. But now I hear you saying that now it has become more sustained in the new GST. So, can you just elaborate a bit on this that how it is now sustained for a long time vis-à-vis our earlier expectation.

Aditya Rao: Absolutely. So, the way effectively works or use to work rather we use to buy raw material except for Solar job we use to buy raw material pay excise duty on it then when we bill our customers we do not charge them excise duty because Solar projects are exempt from excise duty as per the MNRE -- The Ministry of New and Renewable Energy's policy. In practice, what happens is that credit that we have builds up in our balance sheet and we tend to use that credit when we are paying excise duty on our other sales. So, let us say we have Rs. 1 crores in Solar and you typically need about Rs. 3 crores to Rs. 4 crores of sales in other verticals in

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order to be able to pass on the credit otherwise just builds up in your book and it takes you a very long time to pass on that credit. Consequently, that is why you do not have any pure play Solar MMS companies which just do MMS. Now, what we thought was going to happen is that was going to be changed to a credit in the hands of the developer. So, basically, anyone would have been able to supply Module Mounting System, inverters, panels as well and the credit for that the excise duty credit for that would be given directly to the developers themselves. So, this would have removed the advantage that we had in terms of being able to offer our customers that excise duty discount comfortably because we are able to pass through that credit. Now what has essentially happened is the reverse of what we were afraid, so instead of a credit to a customer the older way of doing things has been reiterated and what we expect is going to happen is it is going to be 18% from 12% excise duty, it is going to be 18%. So, it is even more powerful incentive. So, only larger companies doing MMS would be able to benefit from this smaller companies would be unable to swallow the excise duty credit and pass it through success for us. So, that is the rationale behind us seeing the advantage that we have continuous and we believe it to be a good thing as far as our Solar sales are concerned even post implementation of GST.

Vaibhav Badjatya: Right. So, but this advantage would be available to other players also who have business segment that in Solar under the same entity right, this would be available to all the players who have the kind of little diversified portfolio of businesses.

Aditya Rao: That is correct.

Vaibhav Badjatya: Okay. My last question is around HRC prices, just I want to understand a bit more for the domestic HRC prices so I do not want to understand from an import perspective what is the HRC prices and what is the domestic prices given that there are lot of talks around Anti-Dumping Duty and everything being imposed on the import into India. So, I just want to understand excluding the impact of Anti-Dumping charges would have benefited us import of HRC would have benefited us or the international prices at a level right now which does not make a difference.

Aditya Rao: So, on imports of Steel HRC specifically as you used, the duties that are applicable is one of course the Anti-Dumping Duty but there are also another Minimum Import Price MIP price also goes removed and then re-imposed again. So, we have several duties, safeguarding duty, MIP which is Minimum Import Price and Anti-Dumping Duty, the combination of all of this has fundamentally made imports of steel into India currently unviable definitely for HR steel. So, right now the local price for Steel would be in the Rs. 38,000 per tonne to Rs. 39,000 per tonne range for HR Steel which is at grade 35 or grade 15 steel which is what we

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predominantly buy. Now, the import price for that landed cost at our factory or even at port if you want to take it is substantially higher. So, it makes a lot more difficult for us to do it. But we are looking at imports of specialized grades for example from Posco we are acquiring a lot of Solar projects as well we are buying a specialized grade as PosMAC which galvanized Magnesium Aluminium alloy so that for instance those grades can be imported there is definitely room for us to expand our procurement from those but these which we have to depend on local for a vast majority of our procurement.

Vaibhav Badjatya: Right. But if we remove these extraordinary measures taken by government for example MIP and Anti-Dumping Duty, would the import at current price, had these restrictions not there would have been beneficial to us or it would not have been?

Aditya Rao: If you remove all duties the imported price of base HR would be Rs. 2,000 less.

Vaibhav Badjatya: Rs. 2,000 less and….

Aditya Rao: Which on a percentage basis you can say it will be about 2.5% less than local producers.

Vaibhav Badjatya: 2.5% less and this is unviable primarily due to MIP or Anti-Dumping Duty or combination of both?

Aditya Rao: The combination of everything. I am sorry, not 2.5% it is 4.5% Rs. 2,000 on Rs. 40,000. So, that is about 4.5%. It is combination of Anti-Dumping Duty, Safeguard and MIP.

Vaibhav Badjatya: I am sorry, to stretch this thing but hypothetically if there is no MIP and there is just Anti-Dumping Duty would the import of HRC beneficial to us including MIP or it would not be?

Aditya Rao: I will have to get back to you the exact thing, I have the numbers in my head but I think we have not gone through this exercise that if MIP goes away but Safeguard duty remains. But there would be some benefit definitely. But I think the biggest component of this is the Anti-Dumping Duty. So, if it stays I do not see a significant benefit. And I will do the homework and get back to you on that on the exact rupees per tonne of each duty.

Vaibhav Badjatya: Yeah, that is not material, it is not something very crucial.

Moderator: Thank you. Our next question is from the line of Anirudh Agarwal from AAA Investments. Please go ahead.

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Anirudh Agarwal: My question is actually on the Systems and Projects margin. So, we have seen a significant bump in the quarter. So, what is the reason for that?

Aditya Rao: So, for the Systems and Projects business vertical you would have seen bump, do you mean in terms of EBITDA margin?

Anirudh Agarwal: Yeah, EBITDA margin.

Aditya Rao: Okay. The numbers in question for Systems and Projects in Q4 we had an EBITDA margin of 15.3% as opposed to 14.4% which is a 0.9% increase. I would hesitate to allocate this to any specific increase in our spread that we get from our customers. Those have actually been stable. I think the revenue mix would have change with ICF perhaps peaking up moderately and ICF has been an extremely profitable vertical for us. So, that would have been the reason but I do not think you have much to read into per se on this. As both Railways and Solar seek to increase their revenue whichever increase in proportion that will control the EBITDA margin. But as a blend typically let us say, if it continuous to be say 60% Solar and say 40% Railways business as we expect it be, you should expect EBITDA margins in the range of between 13% to 15%.

Anirudh Agarwal: Okay. The question actually came because our Solar revenues were two-third of the systems and projects in this quarter and Solar if my understanding is correct is typically around 10% margin, so that is why the question came in.

Aditya Rao: Solar is 10%, so I would attribute this more to higher off take on ICF as opposed to Wagons. We do report Railways margin specifically but we do not do it on our Investor calls. But what I can do is do a deep dive into it and look at the precise mix. But if you see a margin increase in Systems and Projects it would entirely because of our ICF revenue increasing or our MCF revenue increasing in proportion to rest of the Railways and you are correct in that Solar margins are in the 10% to 11% range.

Anirudh Agarwal: Okay. And Railways would be the Coaches side would be around 17% - 18% EBITDA?

Aditya Rao: I would say substantially higher.

Anirudh Agarwal: Substantially higher, okay. And Wagons would be around?

Aditya Rao: Wagons would be around 17%.

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Anirudh Agarwal: Okay. And other point is on the Solar side what is the competitive intensity in the market currently?

Aditya Rao: For the products that we provide and I am talking about the standalone entity because there the scope is much higher. In standalone entity, we typically provide these components for Solar Module Mounting Systems. For that the comparative intensity as I said is substantial there are other providers out there like Ganges International and others. But what typically tends to happen is the size of your other businesses tends to dictate the size of your Solar business if you had heard the last question. Essentially the larger your other business, the larger your Solar can be, so you can pass on more indirect tax credit. So, that typically controls the size of your Solar MMS business. But there are other large players. There is a company called Neosol for example which is also a large company in this.

Anirudh Agarwal: Okay. Are our other competitors able to avail of the excise benefits?

Aditya Rao: It is my belief that purely from that view point, I do not see any of other competitors possibly be larger than us because purely from that view point and also now from a capacity view point. We have added a lot of capabilities in fast punching, we have just commissioned three new additional new lines for Solar renew mills which actually have line speed of 60 meters per minute with inline punching capability and also other value-added operations which we can provide on that. the combination of all of this is that our productivity is higher, our variable cost are lower and we are well geared up to ensure that Solar continuous to be a good performer for us. From an entry barrier point of view specifically I think the excise duty credit part and also the capital base you already have built up and our customer relationships and our tooling and other capabilities are also significant entry barriers for new entrant and also for existing companies to scale up with respect to us. So, I do not see anyone taking market share from our Solar.

Anirudh Agarwal: Right. On the Enviro front, our order book is Rs. 250 crores currently, so what is the timeline for execution on this order book?

Aditya Rao: Some of these are longer-term typically in PEBS most of the other projects businesses are very-very short I mean PEBS typically has a three month to six months operating cycle. In Enviro it is closer to one year to one and a half years. So, we expect the entirety of this order book to execute within the next one year to one and a half years.

Moderator: Thank you. Our next question is from the line of Sameer Chheda from Vama International. Please go ahead.

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Sameer Chheda: Just too wanted to understand as to GST how much margin impact will that have on us? Will our operating margins improve by that?

Aditya Rao: No, if I understand your question correctly, what you are saying is because we have an exemption do we have higher margins then someone who does not, is that your question? Or GST coming in you are saying what is the indirect taxation on top of that?

Sameer Chheda: No, actually I want to know with GST coming in what is the margin impact we are going to face?

Aditya Rao: The margin impact would only come in if my spread changes. So, whatever input 18% tax is charged on my input raw material is my credit. So, the impact will only come because the credit that I have has gone to 12% to 18%, so on that remaining 6% my inventory carrying cost which will come to 0.6%. So, you can say about 0.6% could be even then you have to consider raw material price also.

Krishna Prasad: It is for the complex, he is saying what happen is after GST coming into, there are several things we have which are MODVAT. So, that extent our input cost may come down but in the same proportion most probably output cost also may be controlled to that extent because we are taking VAT, GST credit on both sides. So, even on long-term most probably it would not affect the industry players. But ultimately consumer it cost may be but in interim yes, we will be getting a slight advantage of cost reduction.

Aditya Rao: What would you say the source of margin reduction because of GST I mean because the indirect taxation is going up is that the question?

Sameer Chheda: No, because the GST coming in like you said a lot of input costs that you are paying maybe you are not getting MODVAT, at least may be opportunity get MODVAT.

Aditya Rao: So, you should not expect more than 0.3% more than a 30 basis points you should not, these are typically things we can pass on to our customers.

Sameer Chheda: Just one more question is that now going ahead where do you see the major thrust of the business is going to come from. So, what do we see in FY 2018, is there any target for FY 2020 we expect? In next three years where we see the company?

Aditya Rao: We do have a five-year strategy plan and obviously that plan cause for very aggressive growth. Accordingly, we are building capital assets and entering associated business verticals where

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we think we have competencies. We typically do not make this public. What I would suggest is if you like a broader picture of the company, we would love you to come visit us where you can speak with the business in its head and get a longer-term picture. But I think shorter saying is that we are very bullish on this financial year's performance which is FY 2018 performance because of the capital asset growth that has happened and a gross block growth that has happened and of course, in the next financial years because of the addressable market size being what it is you should expect double-digit growth but that is about the best I can give you in terms of sunlight. We do have a target for 2020, we have a target for 2022 but we will not be giving those numbers out per se.

Sameer Chheda: Sure, I really appreciate you inviting, so how do I get in touch? Do I write an e-mail?

Aditya Rao: We have our Investor Relations professional, Jill, she will reach out to you as well. We will make sure that we touch base on this.

Moderator: Thank you. Our next question is from the line of Vaibhav Badjatya of HNI Investments. Please go ahead.

Vaibhav Badjatya: So, what was our LC opening charges last year on basically FY 2017 on a consolidated basis and on standalone basis?

Aditya Rao: So, the entirety of our interest cost last financial year was about Rs. 60 crores on a consolidated basis and Rs. 38 crores for last year. So, if you look at the bank charges for say only from LC bank charges, BG bank charges alone out of this, it will be closer to about between Rs. 7 crores I would say. But I will go through this and revert to you on the exact number. I do not have the bank charges right now but I will get the number to you. But that is the ballpark.

Vaibhav Badjatya: So, bank charges are mostly LC opening charges there is no other charge in the bank charges that is what you are saying, right?

Aditya Rao: For the consolidated LC and BG, for the companies like PEBS there is a pretty big BG usage specifically for receiving in advances and of course, performing bank guarantees, these are instruments of security that people asked for, we have never had or been any danger of having any BG actually been used obviously. But these are charges that are part of the business, so typically for LCs and BGs. LCs for raw material BGs for our collections.

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Vaibhav Badjatya: Yeah. So, what I was trying to get is how much savings we are going to get in this financial year if we use the last financial year as a base in terms of absolute amount that is what I was trying to get it.

Aditya Rao: In the total interest cost you will see for a variety of reasons substantial reduction. One the large part of interest cost is because of our solar power plants which as I mentioned in my introductory message we are going to be selling that. So, that itself should result in a reduction of about Rs. 12 crores in our interest cost. In terms of opening charges and inventory is now going to moderate and the opening charges per se also became one-third number. The overall interest charges and the bank charges will still reduce. On the bank charges front alone, you should expect may be Rs. 2 crores - Rs. 3 crores reduction. That is not much more but of course that is reasonably substantial that is close to profit frankly.

Moderator: Thank you. Our next question is from the line of Anubhav Mukherjee from Saif Partners. Please go ahead.

Anubhav Mukherjee: Can you please quantify what was the total bank guarantee and LC bank charges for this year consolidated level?

Aditya Rao: Let me give you the precise break-up, I do not have that right now. I will get you the consolidated bank charges separated out for PEBS and PRL and we will make sure that this information we shared and given out to all investors.

Anubhav Mukherjee: Because yeah, I heard the last question and Rs. 7 crores you mentioned for FY 2016 the bank charges themselves were some Rs. 21 crores, so they did it reduce because that figure does not seem to be in line with what was reported in the Annual Report for FY 2016 because there must have been an increase.

Aditya Rao: Rs. 21 crores bank charges probably do not seem but please give us the time to get this complied and get back to you on this. Rs. 21 crores do not seem because total interest cost itself last year was Rs. 30 crores, so Rs. 21 crores being bank charges is not possible. But I will look through the comment that you are saying was made in the Annual Report and revert to you.

Moderator: Thank you. Our next question is from the line of Lalaram Singh of Vibrant Securities. Please go ahead.

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Lalaram Singh: On the Renewables subsidiary which we are willing to sell, may I know the asset which we have, how much megawatt is it?

Aditya Rao: The total Solar assets that we have in the group in the company is about 30.5 megawatts. Out of which 28 megawatts will be sold 2.5 megawatts is actually being used for captive power, so we could sell that too but now we are retaining it but 28 megawatts will be sold.

Lalaram Singh: These are operating assets?

Aditya Rao: Yes, these are operating assets revenue generating, they have been revenue generating for close to a year and the IRR on the cash flows also is close to 20%.

Lalaram Singh: Okay, got it. Secondly, on our CRSS business I think, we are planning to add value-added products specialties steel there, so if you see the last three years - four years spends our revenue have been declining in that but you believe that going forward we should see a reversal trend in terms of growth?

Aditya Rao: Yes, absolutely. I think special grade CR would continue to drive it and not just in terms of revenue more importantly, we expect to have margins in this vertical for the revenue we are adding and north of 12%. Our business unit head is even more bullish but that is definitely a promise we can make. So, you should expect to see growth in CR in this financial year and you should expect to see growth in margins also for CR.

Moderator: Thank you. Our next question is from the line of Surendra Bachawat, an Individual Investor. Please go ahead.

Surendra Bachawat: My question is Stainless Steel Tube what is the capacity and its status at present?

Aditya Rao: We will initially be starting off at a very moderate capacity of about 5,000 tonnes a year. We expect to scale this up massively once we have stabilized it. Typically, the customers for this would be Railways, ICF, and Pharmaceutical companies, so once we have built a customer base that is when we want because it is in a sense a new vertical for the company while we are very good at ERW and CDW sales and we sell in access of 30,000 tonnes a year. what we do want to do is for Stainless Steel we want to first stabilize it and then grow. So, for the first year we will have capacity of not exceeding 5,000 tonnes per year.

Surendra Bachawat: Okay. Sir, my next question is on dividend, you being a pillar member of the board, what was in the mind of the Board of Directors regarding dividends?

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Aditya Rao: So, we do debate a variety of corporate actions with the board and that included this time a buyback too. My personal feeling has nothing to do with it. It is more about a very rigorous decision taken by the Board in terms of what is the best use for our capital, do we have spare funds? Absolutely, we have profit accounts and we have even in some cases treasury operations as well in PEBS and PRL. But the best use of our funds we believe is to ensure that we continue to grow the company and growth can come in two ways, you increase your addressable market size and your capacity utilization or you build new capital assets and you increase your revenue from your customers. So, following both of those we believe that we have strong opportunities to scale revenue well. We believe the best days for our company are ahead of us. So, consequently we believe that with an IRR expectation which we give to our projects there is a presumed IRR and also the tax efficiency of our dividend. But currently right now I think our preference is projects first then potentially aspects like buybacks and others which the board is discussing and we may have something for you in the next conference call on that. And after that would be the dividends, purely from a shareholder return point of view.

Surendra Bachawat: Sir, you have projected the good set of growth percentage for FY 2018. Sir, our present infrastructure is complied with that or we need more capital investment?

Aditya Rao: So, what we have done sir, is we have added over the last four months a lot of capacities as I had mentioned across our call we have added in Solar three new mills which give us ability to expand capacity massively. We are coming on line with our new Tube Mill by the end of this month Strip galvanizing plant has just come online and will be operational per se after hand over after testing by the end of this month or let us say first week of June. Our hot dip galvanizing plant has come online and will be operational in first week of June or mid of June. Stainless Steel Tube Line will be coming up very soon after that as well and a new Door and Window sections plan, light gauge building plan. So, all of these are initiatives we had undertaken six months ago. They have all started coming online now and in the next one - two months they will come online. So, that will result in reasonably aggressive growth for us in this financial year. But even without those assets, in Q1 itself, in this quarter itself we are seeing very healthy growth. So, I would say that my confidence and our ability to drive revenue and more importantly EBITDA, PAT and operating cash flow growth in this fiscal is quite strong. So, we will look to implement and execute the plans strongly. But as of right now my confidence is very high.

Surendra Bachawat: Sir, in your last con-call you mentioned Morinjapally your new project what is the status.

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Aditya Rao: So, all of these new capital assets are coming in the Morinjapally plant, we may call it the Morinjapally plant, the Velchal plant those are named after the villages that they are near. But we can follow I guess if you want to give a name we call it the new plant that we have set up. It is the largest plant we have ever set up and it is coming online in phases. The first phase which is in this month and next month it should give us the ability to do, we expect to do Rs. 15 crores to Rs. 20 crores a month just in that.

Surendra Bachawat: Sir, we have surplus capacity in CRSS Mill, I want to know why we are not doing the labor job processing or something that we utilize to maximum level?

Aditya Rao: Problem with CR is and I speak obviously of CR without special grade, special grade we have a good plan, we have a good market presence. But regular CR we complete with giants, we complete with JSW, JSW is 20x my size. So, there is no way that I can get the variable cost that I would need to make that product viable, quite frankly we are vacating that business vertical because our ability to get good margins, get good return on our invested capital is very poor in those verticals. So, yes, we are at low capacity utilization. But I do not see us adding enough value even purely from a job basis, even if I were to go to that level I mean they are companies which we are very close to, we had conversations with. It is just I do not think it make sense for them, I do not think it makes sense for us, I do not think we will end up being cost effective for them. So, the markets that are there in the regular CR business will continue to be there that revenue will continue to be there. It would not go away but scaling that business would be difficult.

Moderator: Thank you. Our next question is from the line of Lokesh Manik an Individual Investor. Please go ahead.

Lokesh Manik: My question is regarding the Tubes division. If I am not mistaken in the last quarter you have mentioned that the added capacity was expected to go on stream and we were expected to see a revenue pick-up in this quarter in Q4 and we have not seen that. could you just elaborate on that?

Aditya Rao: So, Tubes is one of the divisions that has declined in Q4, this is a very temporary situation. We have a new plant, the new expansion of our plant Isnapur for Tubes coming up in the end of this month and that plus CDW expansion which you have brought in and others has resulted in this quarter being quite healthy for Tube. So, Q4 absolutely, we did not see the Tubes increase but we are seeing it in Q1 I mean we are half way through Q1 as well already and I think you will see. The overall Tubes divisions did grow for the financial year, we had gross sales of Rs. 180 as suppose of Rs. 160. But this year you should expect stronger growth then that as well

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on the back of the new assets we have put up and we are already seeing that revenue flow down to in Q1.

Lokesh Manik: Okay. And what would be your outlook on the investment components I mean, we have seen that division being flat for a couple of years.

Aditya Rao: All the verticals and subsidiaries we have the one vertical where we are still crafting a plan for is industrial components. I would request for a longer-term industrial components, you should not expect to see very strong growth in this financial year. We do expect growth especially on the back of our Hydraulics sales which are increasing Bailey and wherever we are about to pick-up a couple of more orders to. But for the full year it will be Rs. 5 crores - Rs. 10 crores, so it is not extremely material in terms of the whole company or even for industrial component itself. So, we are crafting a plan where we look at frames, we look at the business models of companies which we work with and we supply to and we believe that some of them can be adapted to us. So, with that, we would give it a much larger addressable market size. But the problem with ICD right now is addressable market, it has just not begun up, it is a good profitable business, good margins but scaling up will take us sometime. So, we will be probably have more for this on you in this financial year sometime probably by September or by quarter or two after that we will be able to give our holistic plan for ICD. But right now the one division where I do not expect to see high growth is ICD.

Lokesh Manik: Okay. And the reason I am asking is because the division commands the highest operating margin if you see amongst all the other division. At the ROCE level would it be the same or will it be higher or will it be in line with other divisions?

Aditya Rao: ROCE for ICD is very healthy. The EBITDA margins were close to 16% to 17%.

Lokesh Manik: 16% - 17%, when it comes to down ROCE level would it be in line with the ROCE levels of other divisions or will it be higher?

Aditya Rao: It will be higher, it is actually more capital efficient I think ROCE has defined as EBIT divided by capital employed is very healthy.

Moderator: Thank you. Our next question is a follow-up from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

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Lalaram Singh: I think in the news I read that there is a new factory coming up in Kanchrapara some place in East of India for Metro Coaches. So, are we supplying our Railways products to the East of India?

Aditya Rao: To the East of India no, it currently service North and South. As of right now I am frankly not aware of a large Coach manufacturing presence. The new plant I have heard of but once that comes up I am sure that will be a potential opportunity for us. Right now ICF is number one, MCF is number two.

Lalaram Singh: On d Wagon side do we see any traction in the near-term?

Aditya Rao: Wagon we do not have a lot of clarity right now, we have an order book but it is a little volatile in the picture. So, we expect to do well this year but I do not have like I see if the clarify had have an ICF and MCF for Coaches we do not have for Wagons right now. So, we will need to wait and see. But definitely, it looks healthy.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the floor back to management for closing comments, over to you, sir!

Aditya Rao: Thank you for your questions. Some of the questions we were not able to answer, we specifically relating to the bank charges for the standalone and consolidated entities. We will get back to all the investors and ensure that all of you have those answers. But thank you for your questions and thank you for your support as we look to grow the company.

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

(This document has been edited for readability)

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