"Pennar Engineered Building Systems Limited Q1 FY2019 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen. Welcome to the Pennar Engineered Building Systems Limited Q1 FY2019 Earnings Conference Call hosted by Ambit Capital. 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 the 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. Amandeep Grover from Ambit Capital. Thank you and over to Madam!

Amandeep Grover: Thank you Lizaan. Good morning ladies and gentlemen. On behalf of Ambit Capital we welcome you all to the Q1 earnings call of Pennar Engineered Building Systems Limited. We have with us Mr. Aditya Rao, Vice-Chairman, Mr. P.V. Rao, Managing Director and Mr. Shrikant Bhakkad, Chief Financial Officer of the Company. Now I hand over the call to the management for their opening comments post, which we can set the floor open to question, and answers. Thank you and over to you Sir!

Aditya Rao: Thank you. This is Aditya. Welcome to all the stakeholders of Pennar Engineered Building Systems. Thank you for joining us for Q1 performance conference call. We had a decent quarter considering certain market conditions that where prevalent and I would hand it over to Mr. P.V. Rao our Managing Director to brief you on the quarter's performance and to give you an indication for what to expect for the PBS. Thank you very much.

P. V. Rao: Thank you Aditya. Good morning welcome all who are participating in this conference. I am reporting the highlights of this Q1 for this financial year.

There are repeat sizable orders what we got from MRF and Bridgestone, recently and then we got orders from Reliance for GBM Towers then we got Hyderabad extension project GMR and then we have repeat orders from Kia Motors that is through TIAAN and we got solar orders in LNV Technologies from Chennai and ESSEL Infra from Odisha.

The gross revenue for the Q1 is Rs.132.69 Crores and the net revenue is Rs.113.54 Crores and the EBITDA is Rs.7.41 Crores and the PAT is Rs.1.31 Crores. There is a significant increase in revenue of Engineering Services about 90% increase compared to the corresponding period last year and there is decrease in PEB as well as solar because the

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dispatches did not happen as expected because of the rainy season and we expect to do better in the coming quarter because we have a better backlog for the second quarter, so this is from my side. Shrikant anything further in the financials report.

Shrikant Bhakkad: In terms of revenues where we were in terms of Rs.132 Crores vis-à-vis Rs.137 Crores what we have, we had close to around Rs.5 Crores of decrease predominately on account of the PEB around Rs.3 Crores and solar to an extent of close to around Rs.11 Crores, so overall the decrease contributes due to lower dispatches in terms of PEB close to around 1800 and solar around 900 metric tonnes.

We are able to do well in terms of Engineering Services close to an increase from Rs.3.27 Crores to Rs.6.2 Crores overall revenue wise. Overall there is an increase of close to around 90% in terms of the Engineering Services revenue. In terms of metric tonnes, PEB we were at 12,800 last year, which we were able to do current year at 11,000 close to around 1,800 tonnes of dispatches and in terms of solar 1550 versus last year and current year we were closed at around 650, so close to around 900 tonnes of dispatches that has happened, which is significant reason for us to decrease in terms of revenue from operations.

Other income primarily consists of the interest that we have earned on fixed deposits and the amount that is lying as surplus funds. It is more or less where we are. If you have any questions, we can answer those questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Rajat Sethia from Vriddhi Capital. Please go ahead.

Rajat Sethia: The first question is on the merger. Has SBI objected to the merger?

Aditya Rao: Sorry could you say that again?

Rajat Sethia: State Bank of India?

Aditya Rao: No. They have not. In fact we have been told that they are in advanced stages of giving us approval. Could you give me the background for your question? It was a little surprising.

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Rajat Sethia: In the quarterly results, we had talked about that our lenders have given us the approval barring for SBI?

Aditya Rao: This is more of a delay than any objection. This is something that we strongly believe is imminent. It should in the next few days. I would not right now guide you to any major stakeholder objecting to the merger right now.

Rajat Sethia: In terms of NCLT and shareholder approval have you applied for the NCLT approval or we have to?

Aditya Rao: The current status is post SEBI approval we have to get NOCs from the bankers all of which, but one has been received, SBI and we expect to receive that very soon. What we will do post that is file with NCLT and then get the EGM started for all the companies and we expect these EGMs to happen in the next few weeks. We will set a date once we hear from NCLT, but we do not believe it is going to take more than a month from now.

Rajat Sethia: More than a month for?

Aditya Rao: The EGMs.

Rajat Sethia: EGMs okay and NCLT it goes into NCLT when, after the EGM?

Aditya Rao: It goes before. We have to file with NCLT and get approval and then hold EGMs. This is the last step for the merger. Once that is in the EGMs, it will be decided whether the merger proposal is approved or not.

Rajat Sethia: Coming to the performance in this quarter, this is probably one of the worst quarters we have had so if you can talk about what went wrong in this quarter?

P.V.Rao: Beginning of year we started with a backlog of around Rs.365 Crores. That is one reason because normally the backlog we had been having earlier backlogs ranging from Rs.350 Crores to Rs.400 Crores roughly, so that was one reason and the other reason is because of the rainy reason some of the jobs could not be dispatched because the sites are not ready. The sites were flooded and all. The foundations were not ready so we were not in a position

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to dispatch. Production clearances also have not come on time because of the rainy season and all. That is one reason. Currently we have improved the backlog because of some major jobs we got. The current backlog extends to Rs.445 Crores roughly, so we expect to do better in Q2.

Rajat Sethia: In terms of profitability despite revenue not being pretty much in line with the same quarter last year, our profitability has taken a big hit this quarter, so again steel prices are hurting or something else you would attribute to that?

P.V.Rao: Steel prices is one reason definitely because steel prices are jacking up almost every month, so though we are able to maintain some inventory, but still the job which has to come to fabrication is after approval of drawings, after the site is ready, so the time that is taking for coming to fabrication, we will decide what raw material prices we have to be in, so it is affected a little bit, but in fact if the revenues are more we would have been little bit better.

Rajat Sethia: Another question on the topline. This is the third consecutive quarter of a decline in our sales on a yearly basis despite steel prices going up, so when steel prices are going up usually with time you will tend to pass on the prices and the realization will go up, so despite that our turnover is coming down on yearly basis, so the last three quarters this has happened?

P.V.Rao: Q4 was higher.

Rajat Sethia: If I compare Q4 of FY2018 with Q4 FY2017, the topline is down?

Aditya Rao: Yes.

Rajat Sethia: Similarly Q3 as well as Q1 of this year, so this is happening despite increase in our raw material prices, so does that mean our volumes are coming down?

P.V.Rao: Volumes not much because the mix of the product is like that. The volumes are not significantly coming down, but the mix of the product is like that because grits are at one level, sheeting is at one level, purlins is at ground level, raw materials, so the mix because of doing more structural steel, which does not involve sheeting and purlins, this issue is coming up otherwise if it is PEB we get more component of sheeting and purlins, which the raw material cost itself is higher.

Rajat Sethia: PEB has higher realization and its share has come down?

Shrikant Bhakkad: PEB has three components. One is structure, one is purlins and another is sheeting. In case of structural steel, it is only the structure that is all.

Rajat Sethia: Structures have got lower realizations?

P.V.Rao: Realization is okay but if you look at the raw material cost and all and the realization in purlins and sheeting is better compared to structures.

Rajat Sethia: One more question on the PAT basically on your balance sheet I have two more questions, so one is what is the gross debt and cash and liquid investments that we have?

Shrikant Bhakkad: In terms of debt, we have more or less at the same numbers of last time what we have. There is no increase in terms of debt that we have of last time and overall the debt is in the controllable stage and we are also sitting on cash reserves in mutual funds and in fixed deposits, which has actually pushed up the other income as well. Net debt is actually zero.

Rajat Sethia: Net debt will be zero and the other question is on balance sheet about the inventory and receivable levels compared to the last quarter? What are absolute numbers to this quarter?

Shrikant Bhakkad: Inventory because of the higher order backlog that we have now, inventory continues to remain at the similar levels. Debtors we have overall increased by 19 days when compared to we were at March. It has gone up from 57 to 76.

Rajat Sethia: Basically last quarter we had inventory of around Rs.210 Crores so you would say it is at around the same levels?

Aditya Rao: Yes.

Rajat Sethia: Got it. Thank you so much.

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Shrikant Bhakkad: You had one question, so I would like to clarify in terms of mix. P.V Rao Sir was explaining to you the structures, purlins and the sheeting, so structures are basically the HR sheets in which the raw material prices are little lower and if you see sheeting, sheeting are in terms of CR and HR coils basically in which the raw material prices are very high. Like HR, the prices let us say 30,000 to 40,000 the sheeting are close to around 60,000 so the point that Mr. P.V. Rao was trying to drive was the structure components have sold more, which relatively in terms of HR prices are relatively lower prices. They are 30,000 to 40,000 metric tonnes vis-à-vis the sheeting, so sheeting component the sales have come down in terms of the metric tonnes. .

Rajat Sethia: That really helped, so basically you said if HR is at around 45 and you are selling sheeting for 60,000 levels right?

Shrikant Bhakkad: There are three components, let us say any job you have 1,000 metric tonnes you can have sheeting component of let us say 200 metric tonnes and HR may be at 700 metric tonnes and purlins at 100. The similar jobs assume in the last year we would have done 1000 metric tonnes. The sheeting component would have been like 400 tonnes and the structures, which is like the main component, they were at a lower, which was like 300 so the product jobs in the job is the product mix has undergone a change.

Rajat Sethia: What kinds of spreads are there in the structural component, structural part?

Aditya Rao: Spread wise relatively does not affect too much because the spread is generally for a job, so either you do structures or in terms of sheeting or this one. Relatively the margins profiles are similar.

Rajat Sethia: Thank you so much.

Shrikant Bhakkad: The incremental revenue that you get from the sheeting's is high.

Rajat Sethia: Thank you Shrikant. This is helpful. Thanks.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

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Rohit Balakrishnan: Good morning everybody. Thank you for the opportunity. Sir the first question is on the merger again so you mentioned that over the next few weeks, you will go to the NCLT and also EGM dates, post the EGM what would be the timeline assuming the approvals are in place?

Aditya Rao: The standard process we would follow is post the EGMs there are two scenarios one the merger process is approved and two of course the merger process is not approved. If the merger process is approved, then it would take us a period of about two months to complete all proceedings for the merger process. We had initially expected it to be a little longer, but we are told it is not going to take a longer that time. Couple of months post EGMs for the merger process to be completed, but of course as you would realize March 31st would be the first period for which we would file merged accounts. In addition to that, if the merger process is not approved, then what would happen would be that the companies who continue to operate in the manner they are right now.

Rohit Balakrishnan: Understood. That is helpful. The second question is that over the last few quarters we have been seeing that steel, which our raw material has been consistently going up and we may be stocking up inventory now. If there was to be a situation where the prices started to come down, then would we face an inventory loss or how does that happen if the prices were to reverse from here on?

P.V.Rao: Currently the orders what we are getting are based on the current raw material prices only. They are a fixed price contracts. If the raw material prices going down the margins do not get affected because the prices at which we booked the jobs now are in the current raw material prices only.

Rohit Balakrishnan: Understood and have you see any increase in pricing over the last three or four quarters with the raw material prices increasing?

P.V.Rao: Yes definitely. About two years back the raw material prices were different. Now it is different, so we keep on changing our cost matrix every month depending upon the import tax of raw material prices. Of course it is difficult to forecast, but more or less we go by cost data and available data and then we do the pricing accordingly every month.

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Aditya Rao: Almost like 25% there was increase in terms of matrix price or whatever.

Rohit Balakrishnan: That is from my side. I will join back if I have more questions. Thank you.

Moderator: Thank you. The next question is from the line of Rohit Gupta from Individual Investor. Please go ahead.

Rohit Gupta: Thanks for the opportunity. Just wanted to understand how do the profitability of the orders work because like if you look at the performance over the last eight to nine quarters, the margins have been continuously going down, so when we say that when we book an order and we know the raw material price for it, we should book the order given profitability and that should not vary that much unless and until like structurally there is a decline in profitability at which you are like getting orders, so just wanted to understand that because that is a big concern? The margins have been consistently going down?

P.V.Rao: Mr. Rohit suppose currently we have order backlog of around Rs.445 Crores we do not maintain that much inventory, so there will be some exposure for the orders that we will be executing after three to four months. We will be covered to some extent only. We cannot cover for full whatever order backlog. We may not be able to cover fully.

Rohit Gupta: You cannot do like back-to-back because some of the other companies in the key space who are like converters or who make pipes and all what I understand is that when they win an order they do a back-to-back contract on the raw material purchase side also?

P.V.Rao: In this industry there are fixed based contracts only. All the companies operate like that only. Only in very few contracts where it is related to any government project then they will have an escalation clause that is all because 95% of our business is private companies only. We deal with private companies only, so all are fixed price contracts only.

Rohit Gupta: I get that. Prices condition is something else like during the execution the prices go up. You pass it own, which is fine but like when bidding for the orders cannot you like withdraw vendors on the purchase side cannot you like get a sense like this only is the price that I can purchase over the next four to five months and bid accordingly?

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P.V.Rao: Some jobs we are able to do because we have quarterly contracts with vendors like JSW and Tata Steel and all, but beyond three months, the projects what we take are sometimes eight months and nine months projects also, so these projects to the extent of quarterly pricing what we have we can cover, but when they come to production that marginal dispute will be there but more or less because of the product increase, for example in engineering services there is a lot of increase in terms of profitability and sales also, so we are able to cover to some extent, but still there is some portion, which is to be addressed, so this business has that little risk of raw material increase, but we are trying to diversify into some other products also in the time to come. Maybe execution is in the planning stage, I cannot disclose now, but we are trying to address that issue.

Shrikant Bhakkad: The project durations are generally very lower so we do not have any high risk in terms of the overall profitability drastically changing. Overall the mix of the order size are between four months to six months and if there are certain extended contracts, which goes beyond up to eight months, nine months or 10 months.

Rohit Gupta: Currently you have Rs.450 Crores of order book, what is the average order duration of that?

P.V.Rao: These are five months roughly.

Rohit Gupta: That is the entire issue, which I am not able to understand because of five months, is a very long time and I can say there are multiple?

P.V.Rao: Average. We are talking about the average. Some projects get up to eight months to nine months also. Some projects get over in two months to three months also. The projects, which are going beyond four to five months and all, there will be an exposure because we maintain roughly some inventory, but that inventory is not sufficient for the whole order backlog.

Rohit Gupta: What may be the split of like what percentage of the order book is above six months can you give a sense of that?

P.V.Rao: It will be roughly around 50%.

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Rohit Gupta: Got it and there is no way they will pass on or like do something to protect the margins?

P.V.Rao: There is nothing we can do Mr. Rohit. We are asking customers. Some jobs for example and there are certain jobs where they could not approach the drawings on time and they could not get the site ready on time as per the contract. There we went there back to the customers and we got price increase also in some cases, but in cases where they are not at fault, they approach the drawings on time, they give the site on time to you for installation, there where the projects are standing six to nine months time, there we are getting a hit.

Rohit Gupta: Does the entire industry work like that because it seems to be significant?

P.V.Rao: It is like that only Mr. Rohit.

Rohit Gupta: In terms of the competitive landscape can you like throw some picture what is happening in the industry? Is it is getting more competitive and is the decline in profitability having any impact in terms of pricing and all?

P.V.Rao: Market wise some segments are doing well. For example, automobile is doing well. Tyre industry is doing well. Automobile new companies are coming like Kia Motors. Existing companies are expanding, so there are some segments in manufacturing, which are doing well for example, automotive. Similarly because of GST warehousing is doing well all over India, so some segments keep doing well and some segments are general manufacturing is not that great. The order backlog what we have is mainly consisting of orders from automotive companies and warehouses.

Rohit Gupta: Got it. What has been the industry growth overall in the last two years?

P.V.Rao: Industry growth I would say same level.

Rohit Gupta: Basically the industry has not grown at least in volume terms?

P.V.Rao: Yes.

Rohit Gupta: Thanks. That is all from my side.

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Moderator: Thank you. The next question is from the line of Nandish Shah from HDFC Securities. Please go ahead.

Nandish Shah: Good morning. I have two questions, the one is suppose if the merger does not get approved by the board, so where do see your company in the next two to three years?

Aditya Rao: Merger is not approved by the board, it is a decision for the non-promoter shareholders of Pennar Industries and Pennar Engineering Building Systems, it is their decision to take and both sets of stakeholders have to approve it, the non-promoter shareholders of PIL and for PEBS. They are the ones who take a decision in the EGM. In the event the merger does not happen, PEBS will continue to operate as a separate listed entity and I think we see our plans, obviously we have had a difficult few quarters, but there were several core strengths for the company, we are effectively debt free, we sit on lot of liquidity, we are one of the major if not in some markets, the major pre-engineered building supplier. We have a lot of new of infinitives that have been brought in over the past few years including engineering services, solar, telecom towers and of course in addition to our capacity expansions, there is some sense cyclicality to some of these industry, we were very quickly if you look our entire history over the last seven years grown from not existing to be one of the premium players so that base and no genetic defects such as very high debt or very high leverage or inability to perform or none of those from an execution of our projects points of view, since none of the issues remain, we remain a company which has very strong capability in structural engineering and the market for that is quite vast, so we have our plans in the event that does not happen, but of course this is a connotation detail post-merger, right now it will be premature for us to comment on a life as that kind of entity in the event the mergers not approved by the stakeholders. I request that we discuss this in detail in a month, it is not very far, it is a month and month-and-a-half from now, but we have every confidence that no matter what happens, we will ensure that the PEBS will get out of this low performance hold and continue to scale revenue, the last one-and-a-half years are not indicative of a growth potential, we will ensure we put in place, plans, processes, capital and of course capabilities that will allow us to do better and we will give a lot more colour on this, no matter what happens in the merger process, the next time we speak.

Nandish Shah: Thank you and the second question is any update on U.S. subsidiary?

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Aditya Rao: The US subsidiary is more of right now stands at subsidiary of Pennar Industries and PEBS also is an investor there, so jointly held by PIL and PEBS. It has done well. We will be reporting and consolidating their numbers as well in Pennar Industries, our parent company so I would guide you to perhaps ask this question and I am not being cute, I could answer it here, but if it is okay with you I would prefer to answer that on the call on the PIL conference call instead, which we will have right after this, so I think it is a more appropriate forum to have that, sorry.

Nandish Shah: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Rohit Potti an Individual Investor. Please go ahead.

Rohit Potti: Thank you for the opportunity. First, I would like to appreciate the efforts taken by the management and answering all questions with such patience and such detail, pardon me this is a very basic question, but I was hoping you could detail the business cycle for Pennar Engineering, after you win a contract to let us say constructor facility, when do you buy the inventory, when do you begin construction, etc., and after long how do you get the sanction, it would be interesting for, I think we need to understand, I am just hoping that the management could detail the business cycle of the company from how and when they bid for the contract till the payment is delayed from the customer?

P.V.Rao: I will explain that. We have sales officers all over India. Suppose the customer has an enquiry or consultant has an enquiry for pre-engineered building, they will call our sales officers or sometimes our sales people approach the customers directly and the consultants directly for the enquiry. After we get the enquiry then the sales people will fill the formats and sent it to the engineering department here in head office. They will do the preliminary estimation and then they will get back to the sales office with the estimation in the quantities they arrived it and then the timeline is also for the execution of the project depending on the size of the project then sales people approach the customers and finally negotiations will happen and on some jobs we lose and on some jobs we gain. After we get the job, the sales officers will not have any role and then there is an auto management team, which is based in the head office and they will interact to the customers directly and they will kick off meeting and depending on the size of the project, each job schedule print will

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be depending upon it. If it is small job for example, 1 Crore, 2 Crores then the job can be completed in two months to two-and-a-half months also, but if the job is 50 Crores, 90 Crores, 100 Crores then it will take up to five months to nine months, 10 months also so that is how the payments all depends on the size of the job and all and the customer and all we talk on payment and how the payment terms fixed, 20% advance and balance LC or BG or sometimes pre-shipment payments, or sometimes customers post shipment payments companies like Shapoorji, Ultra Tech, we give open credit and we collect in 10 days and 20 days like that in the shipment, that is how the business happens.

Rohit Potti: That was very helpful. The question I had was, two questions here, one do you really bid for the contracts in an auction route, do you approach the customer directly, is it one-on-one thing and the second question there is for a previous question you answered saying that after you receive the contracts the drawing has to be finalized by the customer and then only then you begin, could you may be detail that after get an order you do not start the constructing immediately then and is there a time gap between the order and manufacturing it?

P.V.Rao: To your first question, you asked me about what type of auction or negotiation, 99% of the jobs we directly deal with the customers or there will be sometimes consultants, it is a negotiation only. They will call three, four parties and they will get the quotations from three, four parties PEB companies and finally they negotiate, they look at the technical aspect, they look at financial aspects, they look at the execution aspects and then they take a decision on the vendor, so suppose if we get the job, the first process is that we have to submit detailed design, calculations and drawings to the customer or consultant for approval, which normally takes two to three weeks time from our side. Once we give the design calculations and drawings after three weeks, the customer will take at least two to three weeks minimum for approving them because they have to put this plan into their original plan and then see whether it is matching or there are any mismatches and all, so customers normally they have to depend on consultants only. They will take normally minimum two to three weeks, so that means three plus that is the minimum time that is required for the job, design finalization is at least five to six weeks' time. After five to six weeks' time, when the drawings are approved, we will do the sharp drawings that means sharp sketches to do fabrication in the plant, so that will take at least minimum to start with, they will start fabrication at least two to three weeks after we start the sharp sketches, so by

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the time the job goes for fabrication minimum time I am telling sometimes the designs may get delayed, customers approvals may get delayed, size very much may get delayed, but normally the job goes to fabrication in about seven to eight weeks' time from the time the job is booked that is a normal cycle time. Depending on the size of the job it will extend then, the sharp drawings keep on generated and the fabrication keeps on happening in the plan, there is a plan we have the plant loading charge, we load the plant depending on the jobs what we have order back log that we have, July month this many tonnes, August month this many tonnes, September month this many tonnes depending upon the status of approval of drawings and the jobs are taken, we keep on loading the plants, but these plant loading sometimes will have fluctuations because of delays in getting the approvals, delays in site readiness, delays in getting our payment in advance payments and all it may slightly differ sometimes.

Rohit Potti: I understood that, that is quite helpful and during this process at what time do you buy the inventory for the jobs to be done?

P.V.Rao: Inventory normally we maintain some standard inventory for about two to three months inventory we maintain at least the place. We buy plates from 4 mm to 32 mm will make a different thickness in plates, which are required for the structure. In PEBs there are three main components, one is the main structures, the other one is purlins, the other one is the sheeting, normally about 70% to 75% is the structures in terms of volume in any job around 10% to 15% is purlins, 10% to 15% is sheets normally.

Rohit Potti: I was wondering if you could share with us if the steel prices were steady over a long period of time, is there a particular margin level or returns on a project level that you aim for when you bid for a project?

P.V.Rao: Normally we work on, we have a cost masters which has the raw material cost incorporated every month, sometimes we are even changing customers every 15 days also, so we work on a contribution level that is a gross margin level. We bid for the projects at the contribution level. Depending on the customer the contribution varies, sometimes where the competition is less we bid for higher contribution where the competition is more we bid for a competitive contribution, so mainly gross margin level, which is taking into consideration of fixed cost.

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Rohit Potti: Understood, so higher the volumes probably higher the EBITDA at the company level, so that is how the model will work?

P.V.Rao: Yes.

Rohit Potti: That is quite helpful and just one last question from my end, over the last two to three years this contribution level that you are looking at broadly over the company level has it changed upwards or downwards by any chance, so I was just wondering that if over the last two to three years, your contribution margin overall has been trending upwards or downwards?

P.V.Rao: Actually contribution levels depends on the product also Mr. Rohit, because in some products we have higher contribution, in some products we have little lower contribution, sometimes the mix is also getting affected.

Rohit Potti: Broadly, I understand it is difficult to answer this question, but let us see two to three years back compared to that today, if the mix has broadly been the same as the contribution levels remained stable or trends downwards or upwards?

P.V.Rao: They will remain stable Mr. Rohit.

Rohit Potti: Got it. Thank you. That is it from my side.

P.V.Rao: We have to more volume and we do more volume then the fix cost will not get linearly increasing, so definitely the bottom-line will be better if we do more volume.

Rohit Potti: Understood. Thank you. That is it from me. You have been very patient with your answer.

P.V.Rao: Thank you.

Moderator: Thank you. The next question is from the line of Rohit Gupta an Individual Investor. Please go ahead.

Rohit Gupta: I understand that the management is indicating the business is cyclical and there are challenges on the raw material side, but can you give an overview of where as per the

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management where do you see yourself in the cycle and some commentary on how like going forward, how the prospects will be when do we expect the cycle to revert both in terms of profitability and overall growth, so commentary on that would be very useful?

P.V.Rao: I will answer that question. Recently, the market has started improving, the quotation activity has improved considerably compared to previous year I would say because of the e-commerce company is coming up and because of the GST, lot of warehouses are coming up and they are being proposed by the companies, which you were never into warehousing also, for example, TVS Group has started working in warehousing, Musaddilal Jewelers started working in warehousing, so warehousing sector is definitely going to increase because Amazon is going to expand in all the cities then all the other e-commerce company are proposing to have more facilities, fulfillment centers allover India, then with regard to manufacturing other sector, which is manufacturing, we expect manufacturing also to grow because automobile is doing very well definitely, that is why we are getting orders from automobile companies and tyre companies and all and we expect other general manufacturing also to improve because, off late we started getting more enquiries from general manufacturing also. With regard to the other product solar, solar demand is more, every year it is increasing and we already have a backlog of around 55 Crores already in solar and we expect to do better time to come. Engineering services as we have told there is almost 90% increase in sales compared to the previous corresponding quarter and we expect to do much more in the engineering services in the time to come.

Rohit Gupta: In terms of the profitability also any sort outlook and when do see a reversion in margins?

P.V.Rao: We are positive about improvement and the time to come Mr. Rohit.

Rohit Gupta: Thanks. That is all from my side.

Moderator: Thank you. The next question is from the line of Ranjit Kothari an Individual Investor. Please go ahead.

Ranjit Kothari: Thank you for the opportunity Sir. Last quarter we announced a capex of 25 Crores for the expansion of our existing facility, so has our facility come on line?

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P.V.Rao: It is in the process Mr. Ranjit, already process is going on.

Ranjit Kothari: What kind of revenues are you expecting from this facility and are you going first fulfill backlog orders from this facility or going to take new orders for this facility and what kind of growth you expect in revenue?

P.V.Rao: This facility is basically for structural steel. It is capacity on structural steel. So we expect to get more orders from structural steel in the time to come, so that is the reason why we are investing in capex.

Ranjit Kothari: Thank you Sir.

Moderator: Thank you. The next question is from the line of Rajat Sethia from Vriddhi Capital. Please go ahead.

Rajat Sethia: Thanks for the opportunity once again. So, Mr. Rao in the solar segment is there any pressure on the margins?

P.V.Rao: Solar margins have been the same almost for the last two years, the only thing is that currently the panel prices and all fluctuating here and there little bit.

Rajat Sethia: But actually this question was in the context that lot of pressure on the solar manufacturers right now, so I was just wondering that how does it affect us?

P.V.Rao: It was the same this year and last year, I do not think there is any decline in the margin in solar, we are okay with the solar.

Rajat Sethia: And our volumes have they increased or are they pretty much the same like last year?

P.V.Rao: Last year we are expecting to increase significantly in solar.

Rajat Sethia: Thank you, Sir.

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Moderator: Thank you. The next question is from the line of Rohit Gupta an Individual Investor. Please go ahead.

Rohit Gupta: I just had one last question. In terms of profitability, the company did 14% kind of EBITDA margin in FY2016, so once the raw material prices are passed on and in future orders and all, what is the sustainable margin that you think this business can have, like can it revert to those kind of margins or was that like this kind of thing?

P.V.Rao: Almost for three to four, the raw material prices were flat, if you take from 2011 to 2016 almost the raw material prices are more or less flat, there is no much increase in raw material prices, so once we book the job because they are fix price contracts it did not have any volatility and we did not have any problem, but now it is quite almost 25% increase is there in the last two years in raw material prices, so we already have contracts with raw material suppliers for the three months contract, quarterly contract pricing is there, but still some portion of the back lock is getting hit because of the steep increase in the raw material prices and we expect steady prices in this year, we are expecting that the prices will be steady, let us see.

Rohit Gupta: But overall double-digit kind of EBITDA margin possible specifically like?

P.V.Rao: Yes, we cannot answer that. We have to see how it goes.

Rohit Gupta: Thanks. That is all from my side.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from Vriddhi Capital. Please go ahead.

Rohit Balakrishnan: Just taking on from the last person's question, assuming that the raw material prices that they remain stable from here, how much of the backlog do we have, which could be again lower margins for us?

P.V.Rao: We have to see when the drawings will be approved and all it is volatile, and we cannot say that all the brands will be approved in the same time and the same will be ready at the same

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time, so we are expecting a better situation will prevail and the raw material prices would not increase, that is what we are expecting this year.

Rohit Balakrishnan: No, let me clarify my question. Let us say from what the raw material prices are from the current levels, they do not increase from here or they are just stable, as you mentioned earlier in the call that we have fixed price contracts, so we would have taken fixed price contracts basis and as you said these are five to six months contracts mostly, so we would have taken price contracts, which would prevailing at those prices, so assuming that the prices from hereon does not change or remains largely stable, how much of order book that you mentioned about 450 Crores, how much of that would you still be at lower margin because those were at earlier prices?

P.V.Rao: Every month as I was telling you, we keep on changing cost margin and all, and we took the jobs every month and there are shipments happening every month there are order intakes every month also, but if the steel prices are steady out of the order backlog what we have, I think around 15% to 20% will be at the order booked are lower because most of the orders are booked recently only, almost more than 60% of the orders are booked very recently almost one or one-and-a-half months back only.

Rohit Balakrishnan: Understood and how is the cost structure, how much would say you are mentioning about as volume increase your contribution will increase because the other cost will not increase much can you if your total cost let us say 100, out of that how much would attribute fixed cost to be?

Aditya Rao: Normally fixed costs range from around 9% to 10% in this industry.

Rohit Balakrishnan: 9% to 10%?

Aditya Rao: Yes.

Rohit Balakrishnan: That is it from my side. Thank you so much.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Amandeep Grover for his closing comments.

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Amandeep Grover: Thank you, Mr. Aditya, Mr. P.V. Rao, Mr. Shrikant Bhakkad for taking out the time and answering everyone's questions so patiently. On behalf of Ambit Capital, I wish you all the very best for the remaining of the year and thank you everyone for joining the call. I now hand over the call to the management for their closing comments.

P.V.Rao: Thank you very much for all those who have participated in this conference call and we look forward to do better in the times to come. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of On behalf of Ambit Capital that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited for readability)

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