



“Pennar Engineered Building Systems Limited
Q3 FY2018 Results Conference Call”

February 14, 2018

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Moderator: Ladies and gentlemen and welcome to the Q3 FY2018 results conference call of Pennar Engineered Building Systems Limited hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nikhar Jain of Emkay Global. Thank you and over to you madam!

Nikhar Jain: Good morning everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Aditya Rao - Vice Chairman, Mr. P.V. Rao - Managing Director, Mr. Shrikant Bhakkad - Chief Financial Officer, Ms. Jill Deviprasad - Investor Relations. I would now handover the call to the management for opening remarks. Over to you gentlemen!

P.V. Rao: Good morning everybody and I welcome all of you for this investor conference. I am P.V. Rao, Managing Director. Aditya will join little late as he struck is somewhere in the traffic so let me briefly say you on the performance of Pennar Engineered Building Systems in Q3 of FY2018.

There is gross revenue of Rs.136 Crores with net revenue of Rs.116 Crores an EBITDA of Rs.8.61 Crores and a PAT of Rs.2.1 Crores this for the Q3 and if you look at the nine-month ended December 31, 2017, the gross revenue is Rs.426 Crores and EBITDA is Rs.30.67 Crores and a PAT of Rs.9.21 Crores.

With regard to the growth plans we are now in the process of executing capex project about Rs.20 Crores to Rs.25 Crores in the next six months to eight months time, at our Hyderabad plant only. Earlier we were having operations in Baroda that was a hired facility from Aster Building Systems. Since Aster building systems has gone under SARFAESI, we are forced to vacate that premises in Baroda and that is reason why we are now going for a separate structural steel unit in Hyderabad in the same plant and in Hyderabad also we have taken another two manufacturing facilities on hire basis near to the Sadashivpet plant what we have and we are going strong in terms of order from structural steel and solar divisions as well. High-rise building has been our growth path for the last two years and regard we got tangible order recently also and currently our order book is around Rs.400 Crores. This is from my side.

Shrikant Bhakkad: Good morning everyone I am Shrikant here. Just to give you a review on what numbers are in terms of metric tonne. So we have from PEBS, their numbers have been from 16700 we have come to 10600, our solar has been good in terms of from 1300 we are able to increase to almost like 1600 metric tonnes for the quarter that is up by 20% and with a combination of GST now on the solar module mounting structure, the value was increased from Rs.16.3 Crores to Rs.23

Crores up by almost like 42%. As well as in terms of engineering services which we have started is paying good return, now the engineering total number of people in this vertical is close to 150. Per month revenue has almost increased from Rs.65 lakhs to Rs.120 lakhs in terms of overall engineering services activity. I think that is all. In case you have any questions we would be happy to answer those questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Hi Sir good morning. First few housekeeping questions in terms of what were the sales on PEB and solar sales in terms of volumetric number that you share and also on the balance sheet those of data inventory or all data if you could share please?

P.V. Rao: So in terms of turnover which is in PEB which is roughly about Rs. 81.41 Crores and erection is roughly about Rs.9 Crores, solar is about Rs.15 Crores and solar erection is about Rs.4.8 Crores, engineering services is about Rs.3.6 Crores and scrap is around Rs.2 Crores. Net will be roughly about Rs.115.91 Crores.

Rajesh Ravi: Okay in terms of volumes that you share?

P.V. Rao: Volumes I do not have figure as of now. Volumes figure tonnage, but roughly the volume tonnage is roughly about 12200 tonnes.

Rajesh Ravi: So this is PEB right, 12200 would be total?

P.V. Rao: Total PEB and solar for that.

Rajesh Ravi: Okay total would be 13 okay.

P.V. Rao: Some projects got postponed to next month because of some site issues and all, that is one reason, other reason why the revenue has come down is that we were having operations at Baroda in Aster Building Solutions plant so that issue has gone to the court liquidations so that is why we were asked to vacate that plant in Baroda.

Rajesh Ravi: And when did that happen Sir?

P.V. Rao: That happened two months back.

Rajesh Ravi: Two months back means mid-December?

- P.V. Rao:** It is roughly not in December, it is about November beginning.
- Rajesh Ravi:** November beginning only.
- P.V. Rao:** Yes.
- Rajesh Ravi:** Okay so only you had...?
- P.V. Rao:** Where November has been the stated here.
- Rajesh Ravi:** Okay.
- P.V. Rao:** So we were doing mostly structural steel projects there so structural steel, we are now implementing the capex project that Hyderabad plant itself with the capex is roughly around Rs.20 Crores to Rs.25 Crores we are planning in six to eight months' time so that because a lot of orders we are getting structural steel from companies like Toyo, Reliance and Shapoorji and all these mostly structural steels orders are coming up like MRF. So we have a PEB capacity but structural steel capacity we are now enhancing it now, we have hired around two facilities in Hyderabad on hire, which are basically BHEL Industries because BHEL is not doing well so they we got them at a very cheaper rental charges, so we took two of these facilities where each can do about 300 to 400 tonnes per month. So the next quarter should be good in terms of number because some projects got postponed also because the sites were not ready and delay happened in adding our sites so that is another issue why the rising volumes have come down in this quarter and I am expecting very positive thing in the four quarter.
- Rajesh Ravi:** Okay and so on the balance sheet data what was the debtor inventory and payable numbers?
- Shrikant Bhakkad:** Debtors we are able to bring down substantial in terms of number of overall debtors, we have close to around 94-95 days that we are planning, so 94-95 days in terms of BSO that we have. Inventory is still high we planned to bring down the inventory as and when we have some stabilization in terms of steel prices
- P.V. Rao:** There is also steel price increasing that is another big problem every month almost for the last three and a half months, it increases to a tune of around 25%. So we are forced to keep the inventory because we have quarterly contract with JSW Steel for the plates and then for sheeting and Purlines and all we have to keep the quantity in stock that is reason why inventories are high but we are trying to mitigate that and in the time to come as and when steel prices stabilize.
- Rajesh Ravi:** Would you possibly share the actual outstanding, debtor inventory payables?
- P.V. Rao:** We can provide you by offline.

- Rajesh Ravi:** No problem Sir. Okay. Great Sir and all this sort of I saw it in the press release the joint venture with Pennar, could you elaborate more on what are those development and how would that benefit?
- P.V. Rao:** Merger actually we have apprised to the stock exchanges BSE and NSE. I believe they have got in principle approval we got some BSE and NSE, now it has gone to SEBI so we are awaiting approval from SEBI. After we get the approval from SEBI then we have to go to shareholders, we have to conduct AGMs then finally it to the NCLT.
- Rajesh Ravi:** No in terms of what sort of business for the joint venture would pursue?
- P.V. Rao:** Existing already which is there is done, major is between two which are already existing.
- Shrikant Bhakkad:** I think he is talking about Pennar Global.
- P.V. Rao:** Are you talking about Pennar Global?
- Rajesh Ravi:** Yes.
- P.V. Rao:** Pennar Global is based in US, it is joint venture between the Pennar Engineered Building Systems and Pennar industry 50:50 joint venture. There are basically three verticals under Pennar Global one is engineering services business which we already doing it with an American Company there. We also enhanced that to other companies also. Now we are currently working with NCI so we want to work with some other companies also in structural steel like Tekla and all. That is one vertical, the other vertical is hydraulics and then the other one is tubes. Metallic and tubes were in-house manufacturing in Pennar Industries here in Hyderabad and Chennai, so we started revenues already from Pennar Global and it is expected to touch maybe around this year.
- Rajesh Ravi:** Okay Sir I will come back in queue. Thank you for taking my questions.
- Moderator:** Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.
- Vikram Suryavanshi:** Most of the questions are answered. We were also looking for another facility for catering north market particularly in Gujarat or some north area so that plan still active or post expansion in Hyderabad who may not look into?
- P.V. Rao:** Currently we are expecting the markets to improve, but land acquisition process is going on in Gujarat. Land acquisition is going on it is expected to complete may be by another three months' time.

Vikram Suryavanshi: Okay and how is the situation if you look at in terms of steel prices and pricing in terms of products or is it comfortable or?

P.V. Rao: Steel prices are increasing almost every month for Rs.2500 to 3000, . In the last three and a half months steel prices increased by around 25% to 27% also. The long-term contracts what we have done recently is that we are now going for the price escalation clause in all the future long-term contracts like products, which are more than four months, five months duration. We want go with price escalation clause on the customers clause.

Vikram Suryavanshi: Okay. But in medium term there could be some impact of these prices for our margins?

P.V. Rao: Medium term, the advantage what we see we have three main may be one is plate, another is Purlins material and sheeting, sheeting and Purlins times to develop 30% to 35% in building and maximum 65% to 70% is plates. Plates we have quarterly contract with JSW Steel but sometimes if we have to buy structural steel and all there is no quarterly contract for that, but sheeting and Purlins there is a quarterly contract. Some impact will be there, but we are tiding up to the extent possible in the initial pricing to take care of price itself to take care the price increase, but yes what we said is right, but some impact will be there.

Vikram Suryavanshi: How do you see the demand outlook like are we seeing now the things are getting normalized or which are the sectors which look promising in terms of demand now?

P.V. Rao: One sector what we are very positive is high-rise building, high-rise now people there is lot of enquiries coming up for IT Parks and all from Bangalore and South and then Mumbai and Hyderabad. So high-rise we are expecting a growth in one verticals, the other one is automobile field is doing good, tyre manufacturers are expanding all, MRF, Apollo, JK tyres, Ceat tyres, Bridgestone, all people are expanding so that is even the automobile ancillaries also they are expanding, that is looking positive. The other sector which is positive is warehousing because of GST a lot of warehouses are being in all over India and even the e-commerce companies like Amazon, Flipkart, Snapdeal we are getting orders from them also. So warehousing sector is positive but the other manufacturing other than automobile and cement there is dullness definitely.

Vikram Suryavanshi: Okay and Sir last question the orders which we would take it for Baroda facilities if there is pending order will they be serviced from Hyderabad now or how is that situation?

P.V. Rao: They will be serviced from Hyderabad only.

Vikram Suryavanshi: Okay and what was the peak production at Baroda?

P.V. Rao: Production maximum we did 900- 1000 tonnes per month.

- Vikram Suryavanshi:** Okay so new capacity, which were setting up around Rs.20 Crores when it will start?
- P.V. Rao:** This will start functioning from end of May.
- Vikram Suryavanshi:** Okay.
- P.V. Rao:** Next financial year we will have our facility ready?
- Vikram Suryavanshi:** Okay. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Subhankar Ojha from SKS Capital and Research. Please go ahead.
- Subhankar Ojha:** So basically, this Baroda issue is likely to impact our performance in March and Q1 of FY2019 also?
- P.V. Rao:** It will not affect on where we have taken additional facilities in Hyderabad itself to balance that whatever we have shortage slippage in 1000 tonnes in Baroda.
- Subhankar Ojha:** Okay have you started supplying from your...?
- P.V. Rao:** We started already two facilities we have taken, see Hyderabad BHEL is doing well. There is result lot of ancillary industries most of them are idle. So they give those premises to us at a very, very reasonable rental charges. So we have taken two such facilities in Patancheru and Isnapur functioning already so in addition to that we are building our own capex plan around Sadashivpet plant for structural steel.
- Subhankar Ojha:** Great, you expect the issue to normalize in March quarter, right?
- P V Rao:** Yes definitely.
- Subhankar Ojha:** Sir in terms just to get a number in sense how much of revenue loss that we had because of Baroda...is it two months of nonoperational of this facility?
- P V Rao:** I would say one month. From December onwards, we started converting in Hyderabad. One month got affected. Some projects were delayed also. The site is not ready, and some projects got postponed to Q4. So that was another reason because material we kept ready, but we could not shift.

- Subhankar Ojha:** Sir secondly in terms you said long-term contracts will eventually have a price escalation clause, so what is the breakup in terms of the order book and the revenue for nine months? Can you give a breakup of our long term?
- P V Rao:** Roughly around 25% of our orders are beyond five months.
- Subhankar Ojha:** 25% of?
- P V Rao:** 25% of our backlog.
- Subhankar Ojha:** Is long term in nature?
- P V Rao:** Yes they are beyond four months contract.
- Subhankar Ojha:** So we are still at a disadvantage position in terms because the raw material is Rs.2500 to Rs.3000 per tonne per month move is huge?
- P V Rao:** Long-term contracts we are now asking for...because some projects got delayed because of the mistakes from customers, mistake in the sense, delays from customers in approving the drawings, in paying advances and all. There we are asking them to pay additional we cannot bear the difference in raw material pricing. For example, we got contract from Paints Company. We got contract from Cements Company. So those contracts are really appreciated and then we got additional price also from them.
- Subhankar Ojha:** Sir Steel as a percentage of total cost will be how much?
- P V Rao:** Roughly around 65%.
- Subhankar Ojha:** 65% that is very high. Sir finally in terms of the merger with Pennar Industry what is the progress there and what is the timeline?
- P V Rao:** Merger with Pennar Industry time line I cannot say, but the approval from BSE and NSE have come, in principle approvals have come. Now the ball is in the court of SEBI. SEBI has to give the approval and after SEBI gives the approval we have to conduct AGMs in both PIL as well as Pennar Engineered Building Systems and subsequently ROC and subsequently NCLT. Last is NCLT. Timeline I cannot say because it is related to government and all I cannot tell timeline and all, but this is the process.
- Subhankar Ojha:** Alright Sir. Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Prajat Setya from Vrddhi Capital. Please go ahead.
- Prajat Setya:** Sir you just mentioned some joint venture between Pennar Industries and Pennar Engineering?
- P V Rao:** Yes, it is a joint venture company, which was formed in the US for Pennar Global to increase the revenues of engineering services. Currently last year we did about engineering services Rs.10 Crores revenue and this year it is almost becoming 1.6 to Rs.1.7 times, so we may be ending up to Rs.16 Crores or Rs.17 Crores I think the revenue in engineering services only, so we want to double it next year by having our own presence there in the frontend, our presence there. So we have recruited people from similar companies who are local Americans and put them on the job and we are trying to tap other companies also to work on our engineering platforms, that is one thing. The second thing is the Pennar Global deals with tubes as well as hydraulic cylinders also, so each revenue will be roughly around \$2.2 million to \$2.5 million there. So we want to increase it substantially in the coming year that is the reason why we have started a company there and we have put the sales team in place.
- Prajat Setya:** In case of the merger goes through between the two companies and what happens to this entity and it becomes...?
- P V Rao:** It is totally owned by Pennar Industries only.
- Prajat Setya:** Sir the reason for decline in sales in this quarter is plant issue or something else?
- P V Rao:** Some projects got postponed in the sense, site is not ready. We have produced and kept, but this material could not be shipped because the sites are not ready, own sites. So that is the reason why it is in form of finished goods inventory, so that is why we could not ship. Now it is getting shipped. We have started shipping already. In January we shipped already some material and February also we are shipping. This quarter should look good- the fourth quarter.
- Shrikant Bhakkad:** The additional facilities that have come in Hyderabad also we will be able to improve. So Q4 there will be improvement in terms of revenue in EBITDA as well as in the profit margins.
- Prajat Setya:** Sir in terms of the outlook going forward how you are seeing this being affected for long time because of the GST do you think that in case of that the new warehouses have started...?
- Moderator:** Excuse me this is the operator Mr. Sethia can you us the handset mode because the audio is not clear from your line.
- Prajat Setya:** Just wanted to understand the pace of new warehouses getting build up how is that happening in your market and how are you seeing that and how much of that can you garner?

- P V Rao:** The warehouses are coming up all over India after the GST and ecommerce companies are going ahead with constructing large logistics parks and all, if you take Amazon, the first logistics building for Amazon we built in Hyderabad Airport and then we built in Bengaluru also for them. We are going ahead because after the GST came several people who were never into warehousing also entered warehousing that is the scenario I am observing all over India almost. So we are expecting a very positive outlook for warehousing, but to some extent the manufacturing other than automotive and cement and steel. Steel is also expanding. Cement is also expanding and automobile is expanding, but other manufacturing little progress is there.
- Prajat Setya:** Sure Sir and Sir do you see any issues in the way of merger of the two companies?
- P V Rao:** I do not see anything because we got already approval from BSE and NSE. Now it is with SEBI and after we get SEBI's approval then we have to conduct AGMs of both the companies, then it will go to ROC, and then it will go to NCLT.
- Prajat Setya:** Sure and you would have spoken to your larger shareholders both the companies have some big institutional shareholders as well?
- P V Rao:** We are in the process of talking to them. We have not included them from pennar, but we are in the process of talking.
- Prajat Setya:** Thank you Sir I will get back in the queue for further questions. Thanks.
- Moderator:** Thank you. The next question is from the line of Gautam Bahal from Mauryan Capital. Please go ahead.
- Gautam Bahal:** Thanks for taking my question. Sir just to clarify what you said for the last questioner that some of the projects got delayed in Q3 and will be reflected in Q4, it is just a timing issue?
- P V Rao:** Timing issue. The site is not ready because the escalations and all could not happen on time. The foundations could not happen on time.
- Gautam Bahal:** So it will all be reflected in Q4?
- P V Rao:** This will come in Q4, yes.
- Gautam Bahal:** Sir just to get back on the margins as well, so the margins have kept declining over the last few quarters, could we say categorically this is the bottom of the margin now?
- P V Rao:** One reason for the margins for the less margins in this quarter Q3 is that the proportion of PEB is less compared to solar and other structural steel and all because PEB has a contribution in terms

of our profits in the products what we have and because PEB's the volume has come down in this quarter. For this reason why there is reduction in the margins also, but subsequently in the Q4, we are expecting a good growth in PEB and that will compensate for the lower margins in this quarter.

- Gautam Bahal:** So it is more of function of the lower mix in PEB rather than the PEB core margin itself falling?
- P V Rao:** Exactly. Our high-margin product is engineering services. There we have about 50% contribution kind of a growth. That has been growing.
- Gautam Bahal:** That is the PEB margin?
- Shrikant Bhakkad:** This is growing at a very good speed we work on the contribution levels. We get the highest contribution compared to solar and other .business verticals.
- P V Rao:** So the PEB, its volumes have come down because of the postponement of the projects and all that is why it is affecting the margin.
- Gautam Bahal:** But is the margin more or less stable in PEB itself over the last quarter or so?
- P V Rao:** It is stable yes.
- Gautam Bahal:** Could you give us any sort of outlook on the margin for next year FY2019, once the sort of steel price or it stabilizes?
- Shrikant Bhakkad:** We expect to maintain the contribution margin next year.
- Gautam Bahal:** Same margin as in which because currently you are way below your normalized margin right? It used to be 9%, 10% and 11% and now it is at 7%?
- P V Rao:** We wanted to increase the PEB margin also. The other one is solar for example earlier we are getting all the products done 100% in Pennar Industries, so we got some machines like HAT Section machine and C section machine, so almost 60% to 70% of solar business now we will be manufacturing in-house that will increase the contribution.
- Gautam Bahal:** In the past conference calls you mentioned that PEB margin should be in the region of 11% to 12% or 13% if I am remember right. Right now I assume it is much lower, so do we assume that will go back to is normalized level in FY2019?
- P V Rao:** Yes normally the local contribution levels are at 20% to 22% in PEB. There are two components in PEB. One is PEB Supply and PEB Erection. In erection we do not get that much, but erection

is only 10% of the total value, so to some extent it gets reduced, but we normally work on contribution about 19% to 20% in PEB where as in solar we expect around 10% to 12% contribution.

- Gautam Bahal:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Good morning Sir. Sir is there any reclassification during this quarter between the steel products and your other segment of engineering?
- P V Rao:** There is no reclassification.
- Dikshit Mittal:** Because last year if I see in system and projects your revenues were Rs.113 Crores and this year you are showing Rs.55 Crores?
- P V Rao:** That is Pennar Industries I think not PEBS.
- Jill Deviprasad:** You are referring to Pennar Industries systems and projects, this is the PEBS call.
- Dixit Mittal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Prajat Setya from Vrddhi Capital. Please go ahead.
- Prajat Setya:** Sir thanks for the opportunity once again. Sir in the last con call you had mentioned that you are thinking of putting up a capex of Rs.15 Crores to Rs.20 Crores that can catch up to Rs.100 Crores to Rs.120 Crores of revenues is that the same capex that you are putting up and you are expecting it by May?
- P V Rao:** Yes that is the same amount.
- Prajat Setya:** You had also mentioned that the margins would be lower in this project, so what kind of margins do we expect versus the other?
- P V Rao:** Currently in structural steel, we are outsourcing also the Hyderabad. The outsourcing will come down because of in-house facility.
- Prajat Setya:** Sorry Sir I could not understand?

- P V Rao:** We are keeping our margins increased. Earlier four vendors we were hiring in Hyderabad itself, so now that will come down definitely and the other one is solar we were entirely getting manufactured in Pennar Industries 100%, so we got the machines around 65% to 70%, now we will do in-house that will increase the margins in solar as well.
- Prajat Setya:** Sir on the steel prices side, steel prices are again moving up and have moved up by around 10% to 20% in the last two months, so how are we placed again I am sure will we be a hit on growth margins in the coming...?
- P V Rao:** Maintaining higher inventory that is what we have been doing anyway it will have inventory cost is also there, but we do not have choice because it is increasing in a very, very steep manner totally unpredicted. One advantage what we have is in the plates and all we have a quarterly contract with JSW Steel and some arrangement we did with Tata Steel also quarterly time, so that place to some extent we are getting covered and our projects basically are three to four months type of projects. The projects, which are spanning for than four months or five months those projects because of the quarterly contract and all we are a little bit safe because in that the grade component is much more it is much more in those projects. We have commented about this definitely. I cannot rule out completely the effect of steel prices, but some effect is there on raw material prices.
- Prajat Setya:** Sir what is the level of inventory at the moment? Have we increased the inventory in our stock?
- P V Rao:** The figures I do not have, but roughly it is about Rs.170 Crores to Rs.175 Crores we have in inventory.
- Prajat Setya:** Has that increased from the last quarter?
- P V Rao:** It has decreased from the last quarter.
- Prajat Setya:** Decreased. So Sir if it has decreased actually and the prices are rising, so going forward there could be a challenge right on margins?
- P V Rao:** We have quarterly contracts. That is saving us to some extent actually. Our prices are based on the quarterly contract, raw material prices.
- Prajat Setya:** How is the pricing environment I mean the pricing of the products that you are selling to the customers is there any change in that, has it worsened or has it improved?
- P V Rao:** It depends on the market condition basically, so what we will do is that whatever raw material price is there then we expect some price to increase in the coming months. We paid up that price

also to some extent, but it is a competitive market definitely, so the increase in prices we are able to pass on definitely.

Prajat Setya: Was there any inventory gain in this quarter?

P V Rao: Inventory we have reduced compared to the last quarter.

Prajat Setya: No I am saying in the profit and loss statement was there any inventory gains that we booked because closing prices of the steel have been higher, so based on that I am asking this question?

P V Rao: No we cannot recognize that.

Prajat Setya: Sorry I am not able to hear you properly Sir could you be a bit louder.

P V Rao: We cannot recognize the higher of the cost it has to be lower of the cost or net realizable value, so it is impacting cost only there is no gain that has been recorded.

Prajat Setya: And just last question Sir do we expect our finance cost to be higher as a percentage of sales because raw material prices are increasing?

P V Rao: Finance cost we are able to decrease in terms of where we were last year to the current year, through a combination of the different instruments that we have been using and due to lower rate interest compared to the corresponding year. So if you see the overall the cost has come down from Rs.13 Crores to Rs.12 Crores and for the quarter, also we are able to reduce from Rs.5 Crores to Rs.3.5 Crores.

Prajat Setya: So going forward what is the outlook on that?

P V Rao: We should be able to continue with the present interest cost that we have.

Prajat Setya: Just one last actually what could be the timelines as per you standing today what can you envisage that how long can it take for the merger to happen?

P V Rao: We cannot say because it is difficult as it is with government only, but as of now the BSE and NSE approvals have come in principle. It has gone to SEBI. I do not know may be it will take a month or so with SEBI and then after that filing for AGMs and then we have to go for ROC and then NCLT it will take time. I cannot define the timeline, but it is going on.

Prajat Setya: So just to get some idea does it take six to eight months or more than that or more than a year?

P V Rao: We are expecting that. I cannot say, but we are expecting that maybe within a year.

- Prajat Setya:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ranjit Kothari from Vibrant Securities. Please go ahead.
- Ranjit Kothari:** Sir once the merger is complete how our Swaraj division is going to work and how GST is going to help us being fully integrated?
- P V Rao:** We are working on the procedures and all for the major in terms of HR, in terms of organizational structure and all these things are being worked out. An agency has already been appointed to advise us on the major process and in terms of manpower, talent and acquisition and roles and responsibilities. All these things are being worked out.
- Ranjit Kothari:** Sir if I am not wrong in talking in last concall you mentioned that GST has helped us in getting cost advantage compared to other companies reason being our present in different segments, so how after combined entity is going to like help us more and are you going to get more cost advantage compared to others?
- P V Rao:** That is for Pennar Industries. I do not think this question is related to PEBS. We never said any.
- Ranjit Kothari:** Yes but I am just asking in general after merger?
- Shrikant Bhakkad:** GST is now equal for PEB as well as the solar. Earlier you had MNRE, which was there in the solar now. That you do not have. Everybody is on the level playing field.
- Moderator:** Mr. Kothari you are done with your questions?
- Ranjit Kothari:** Yes.
- Moderator:** Thank you. The next question is from the line of Vikas Aggarwal from AA Investments. Please go ahead.
- Vikas Aggarwal:** Thanks for the opportunity. So if I have understood correctly, we expect margins to remain flat in FY2019, so does that mean the ROCs will also remain muted for some time to come?
- P V Rao:** We are expecting growth in ROC as well as in margins also because we are now spending money on the capex, so that our outsourcing process will come down. We will improve the status in Q4 and then the coming year also.
- Vikas Aggarwal:** What will be your ROC target for FY2019 and FY2020?

- P.V. Rao:** I do not have the figure as of now, but it will be improved.
- Vikas Aggarwal:** No just roughly not on specific target, but may be intention would be to go above 15% or 20% how do you see it?
- P.V. Rao:** Definitely margins will improve with certainty, I cannot say number per se how much it would be, but definitely you will see the improvement that is happening in the ROC levels with investment that we would do and once the investment start yielding the results.
- Vikas Aggarwal:** My second question is on what are the structural impediments to the growth of the industry I mean where are we lacking versus concrete or what is the customer pushback that we are getting?
- P.V. Rao:** Mainly the manufacturing has to improve, number one in PEB. Structural steel as we are getting orders more than our specific impact and then high rise is a segment which is definitely growing a lot, but in the PEB except automobile, cement and steel industries, the other segments have come down because if you take power plant construction where the turbine buildings earlier used to be constructed, so most of the power plants are now becoming solar power plants now. So the solar revenue is increasing because of conversion of thermal plants, I do not say conversion but more of solar plants are being built compared to thermal power plants. So we expect solar field to grow up because this year we will be doing Rs.100 Crores roughly on the Solar, plastics is about Rs.70 Crores I believe and definitely it is going to have impact but there is solar is very much in terms of lack in manufacturing that will help that is what I am because many companies are building warehouse all over India after the GST came.
- Vikas Aggarwal:** Right and who would be your major competitors in the PEB space?
- P.V. Rao:** We have Kirby, we have Interarch in Delhi and we have Zamil steel in Pune and we have Everest to some extent I would say and then we have Phoenix from Ahmedabad.
- Vikas Aggarwal:** So how has the competitive intensity been is it like huge amount of competitive intensity which is where we are seeing a lot of pressure on the margin side or how do we see that?
- P.V. Rao:** Competition is there definitely that is the reason why we have diversified into other areas also like engineering services, other companies are not doing engineering services, so we have diversified this year and similarly we are going to high rise whereas only except one company, others are not in high rise building, so structural steel similarly not all are there except two of our competitors, so we are now getting into diversification more and more because of which our margins will remain steady and then there will be growth in even margin terms..
- Vikas Aggarwal:** And other than raw material prices, what are the other major risk or challenges that you would be seeing in the business?

- P.V. Rao:** I do not know, except market I do not see any risks.
- Vikas Aggarwal:** Okay, thanks. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Saurabh Mehrotra an Individual Investor. Please go ahead.
- Saurabh Mehrotra:** Thank you for taking my question. On the high-rise side I just wanted to understand are we also into the business of scaffolding?
- P.V. Rao:** No, we are not in scaffolding, we do only structures for high-rise building instead of RCC structures, people are going with steel structures because of the speed of construction. Currently in Hyderabad, we are building 20 floors building 2.1 million square foot building which is meant for Genpact is the commercial building, so residential building also started in Hyderabad. We were doing around eight towers in Hyderabad also. In another area also like Bengaluru, Cochin, Trivandrum, in Mumbai and people are coming forward to go for steel construction in view of the advantage of speed.
- Saurabh Mehrotra:** The other question is on the face of it as an investor if I look at Pennar Industries and PEBL and the merger ratio it seems unfavorable to Pennar Industries, what would be of advantage of it, looking at the growth rate as well as the margin.
- P.V. Rao:** I cannot answer that question.
- Shrikant Bhakkad:** Saurabh, as per the market price method, exchange ratio is decided in the last six month weekly average price and the average of 2 week price that you have whichever is higher.
- Saurabh Mehrotra:** PEBS seems to be facing more challenges in Pennar industries in growth, so it may be a bit unfavorable to the shareholders of Pennar industries, how would you any comment on that or do you feel that...
- P.V. Rao:** I have no comments on this.
- Saurabh Mehrotra:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line Rohit Balakrishnan an Individual Investor. Please go ahead.
- Rohit Balakrishnan:** Just wanted to understand from you so let us say in your PEBS business that is Amazon or somebody else gives you have an order today to build a warehouse from you getting an order to you executing it, how much time does it take, what is the duration of the entire?

- P.V. Rao:** It takes about three to four months times depends on the size of the project, but Amazon, we did 4 lakhs square foot in Hyderabad, we did in three-and-a-half months to four months' time.
- Rohit Balakrishnan:** Okay, so Sir is it possible that if you are executing this project and because your steel is a major raw material, can you do a back to back contract with your raw material and in a way sort of be insulated from the rise or fall and...
- P.V. Rao:** In the PEB industry, there are three main components in the building, one is plates, this constitute about 65% to 70% of the building more or less and then balance 30% Purlins and sheeting. Purlins and sheeting there is no...you cannot have any contract with them, you have to buy that is why we have to keep higher inventory to cover these projects, but plates we have quarterly contract with JSW as well as Tata Steel also.
- Rohit Balakrishnan:** Okay and that is on the raw material side, but on your customer side do you also pass on the I mean whatever the quarterly price changes to your customer or that does not happen?
- P.V. Rao:** Most of the contracts are fixed price transaction that is the reason why we maintain more inventory number one, number two is we have quarterly pricing contract with companies for plates.
- Rohit Balakrishnan:** I understand quarterly pricing with your suppliers, but I just want to understand why is not possible to pass on the increase or decrease in the raw material to your customers, is it because of competitive structure of...
- P.V. Rao:** The structure is like that it has been happening for many years in the industry practice is like that it is fixed price contract only provided the drawings approval is delayed from customer, provided the advance payment is delayed from customer, then we can ask for explanation. Now we recently started the products which are beyond four months' time we are asking them you have price escalation clause in the contract itself. If it is decreasing we will pass it onto you, if it is increasing you please pay me. It is linked to steel price index, Steel Authority of India price index every month they release the price index, so we are linking that, we will have formula and we are linking it to them.
- Rohit Balakrishnan:** Okay and in this PEBS Industry in India what market share would be have any chance would have?
- P.V. Rao:** We have around 10% to 11% market share.
- Rohit Balakrishnan:** And what would be the market share of the largest player?
- P.V. Rao:** Largest player is 16%.

- Rohit Balakrishnan:** Okay, it is a pretty fragmented business in that sense.
- P.V. Rao:** Yes, the total industry sales about Rs.4500 to around Rs.5000 Crores roughly small and big out of which around Rs.3000 Crores is by big players and balance is by small players.
- Rohit Balakrishnan:** Okay, got it. That is all from my side. Thank you.
- Moderator:** Thank you. This was the last question for today. I now hand over the floor back to the management for their closing comments. Over to you Sir!
- P.V. Rao:** Thank you very much to all of you for coming in for conference call and as we are bullish on the time to come we are having good growth path, we do not have any long term debt from the company, what we will have only is working capital and we will definitely leverage whatever strength that we have, we have completed 10 years of operations recently when we celebrated 10 years anniversary recently in Hyderabad and we are geared up to have expansions with capex proposals and we are geared up to have more diversification also in the time to come to gear up the margins and we are very bullish that things will definitely be better in the time to come. Thank you very much.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines

(This document has been edited for readability)