Pennar Engineered Building Systems Limited
Q2 FY 2017 Earnings Conference Call

November 08, 2016

MANAGEMENT: **MR. ADITYA RAO - VICE CHAIRMAN, PENNAR ENGINEERED BUILDING SYSTEMS LIMITED**
MR. P. V. RAO – MANAGING DIRECTOR, PENNAR ENGINEERED BUILDING SYSTEMS LIMITED
MR. SHRIKANT BHAKKAD -- CHIEF FINANCIAL OFFICER, PENNAR ENGINEERED BUILDING SYSTEMS LIMITED

MODERATOR: **MS. NIKHAR JAIN – EMKAY GLOBAL FINANCIAL SERVICES LIMITED.**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q2 FY 2017 Results Call of Pennar Engineered Building Systems Limited hosted by Emkay Global Financial Services.

We have with us today, Mr. Aditya Rao -- the Vice Chairman; Mr. P. V. Rao -- Managing Director; and Mr. Shrikant Bhakkad -- Chief Financial Officer.

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 the operator by pressing '*' then '0' on your Touchtone Phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Ms. Nikhar Jain of Emkay Global. Thank you and over to you.

Nikhar Jain: Good morning, everyone. I would like to welcome the management and thank them for giving us this opportunity.

I would now hand over the call to Mr. Aditya Rao for his opening remarks. Over to you, sir.

Aditya Rao: To all the stakeholders of Pennar Engineered Building Systems, thank you and it is a pleasure to be with you today for our second quarter conference call on the performance. We have here with us today, Mr. P. V. Rao -- Managing Director; Shrikant -- our Chief Financial Officer and of course myself. What we will do is first give you an overview of the performance of the company for the second quarter and then Shrikant will provide the financial overview and we will then open the floor for any questions that you may have.

With that, I would like to hand over to Mr. P. V. Rao to give an overview of the quarter's performance.

P. V. Rao: Good morning, everybody. And I welcome all of you to this conference call.

Regarding highlights of quarter two, we received major orders from Phoenix, one of the construction companies in Hyderabad for a high rise building of 1.28 million sft. which will be leased out to Genpact, so that is a big order.

And then we got an order from Shapoorji for the construction of a manufacturing facility for Haier in Pune. Then we got Amazon's first distribution center in India at Shamshabad Airport. We got this order through GMR and it is a 4 lakh sft. building. It is coming up in Shamshabad Airport.

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Then we got warehouse orders from RKV Developers of around Rs. 10 crores.

Another significant order we got was from Toyo Engineering, a Japanese company, for pipe rack structures, at Chambal Fertilizers in Rajasthan.

Then we got another significant order from Schindler for their training center, a ground plus four building at Pune.

Then there were repeat orders received from Transport Corporation of India, Malani Foams, Hetero Drugs, among others. The current order book is around Rs. 431 crores. We are planning to open an Engineering Services office in Vijayawada. We already have one in Hyderabad and we one in Visakhapatnam that was opened last year. Now, we are planning to open in Vijayawada.

We received an offer from a company which is involved in facades. We are evaluating the option which has come to us. Regarding the Baroda plant, we have increased the production up to 1,200 MT per month. And for Engineering Services, the sales have increased significantly to the tune of 130%. The revenue of last year from Engineering Services was crossed in the first six months only.

On the possible acquisition of an Engineering Services company, we are currently doing the due diligence. So, after the due diligence is done, we will go for purchase agreement, subscription agreement, and operating agreement.

And about the North India plant, as I told you, that has been taken on a job work basis at Baroda from May this year onwards and the plant is reaching its capacity levels and we are evaluating options of increasing the capacity within that premise with the permission of the owners. We are also evaluating various options for setting up a permanent facility to serve the markets in Madhya Pradesh, Gujarat, and the North.

I am happy to say we have received three awards recently, one award from Construction World the Top Challenger Award and we received PEB Project of the year - Runner up award from Construction Week and today I am going to Delhi to receive another prestigious award from Dun & Bradstreet Infra Awards.

So, this is about the performance of the company and I will now ask Shrikant to take you through the financials.

Shrikant Bhakkad: Good morning, everyone. I just like to take you through y-o-y performance. Gross revenues stood at Rs. 136 crores, up by 11% year-on-year. Net revenues stood at Rs. 120 crores, up by

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9.01%. In terms of EBITDA, including the other income, we are at Rs. 14.9 crores and consistently maintaining the margins overall at 12.45%. PAT has increased from Rs. 4.36 crores to Rs. 6 crores, up by Rs. 1.64 crores, almost 38% increase.

As we have informed, I think there is a scalable number of hours that have been included in the Engineering Services and the revenue from the segment was gone up by 130 percentage points.

In terms of working capital cycle, there is an improvement but we think we will have further improvement in the quarters to come. The receivables have decreased from Rs.140 crores to Rs. 121 crores and we were also able to reduce the working capital borrowing from Rs. 54 crores to Rs. 30 crores at the half-year ended September 30th, 2016. We had an increase in inventory during the current year, this is predominately due to the higher order book, increase in the steel prices and to feed at both the plants at Baroda and Hyderabad. So, this was the main reason and we will explain it in detail if there are any questions on this. The increase in inventory was predominantly because of the steel prices because of MIP Safeguard Duty and coking coal and other prices being increased.

With this, I complete the discussion on the financial performance. We can open the floor to the questions.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. We have our first question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Sir, just wanted to understand steel prices have been volatile over the last two quarters - three quarters and still we have been able to keep our margins steady. So, could throw some light on the same?

P. V. Rao: Yes, steel prices are increasing and there is the MIP, Minimum Import Price and Safeguard duty that were imposed and then there was a coking coal price increase. That is the reason why the steel prices are increasing. So, what we have done, one is that we have agreements with steel mills where there are long gestation projects, where the project is spreading to six months to eight months or nine months. And we have tied up with the raw material suppliers and we paid advance and made them agree for the staggered deliveries. That is number one. Number two is that we have now increased the inventory levels. If you look at the last year and this year, it has increased by almost Rs. 60 crores - Rs. 65 crores. That is the reason why we it has significantly increased because we had to cover the order book. We have 431 crores of order book, out of which around last two months' order book is anyway covered because we have taken latest raw material prices into consideration while quoting itself. Some part of this had to

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be covered, that is the reason we have taken these two steps– one is have more inventory and then the other one is to tie-up with the raw material suppliers for the long gestation project.

Rajesh Ravi: Great. So, in this case then the price volatility is less impacting you like-to-like secured your cost against the project that you have booked?

P. V. Rao: Yes. More or less.

Rajesh Ravi: Okay. And sir, would you share what was the volumes production or sales volume for this quarter against the revenues?

Aditya Rao: While we will give you that number, I do want to mention at this point that not everything is production tonnage. While we have good strong growth in production tonnage, we also have a lot of bought out items which is a very significant part of our revenue. We are in engineering services also and erection revenues and other project management revenue, which is not tonnage based. So, I just want to qualify that but we will give you the tonnage.

P. V. Rao: The tonnage in the corresponding quarter of the last year was 12,800 tonnes. Now it is 14,600 tonnes.

Rajesh Ravi: 14,600 tonnes is sales which we did in the PEB segment

P. V. Rao: Yes.

Rajesh Ravi: Okay, great, sir. There is a significant improvement in the volumes.

P. V. Rao: Exactly, there is 14% increase in that.

Rajesh Ravi: Right, sir. How is the North operations you have mentioned that now it is doing around 1,000 tonne per month?

P. V. Rao: Yes, 1,200 we have reached already. So, it is roughly around Rs. 9 crores - Rs. 9.5 crores we are doing there.

Rajesh Ravi: Okay. And how is the scenario sir, in terms of demand outlook you know…

P. V. Rao: Demand outlook, we are expecting that to increase in the time to come. There is news - one is the freight corridor that is under construction from Bombay to Delhi and there is an industrial corridor proposal also in that area. So, currently, I would say that it not that attractive but in the time to come we are expecting an increase. A lot of warehousing activities also is increasing in

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that area because of GST. Recently, we have got three orders from a company called Musaddilal. They are jewelers basically in Hyderabad and they are constructing warehouses. Then Amazon is coming up with warehousing also in North India. So, warehousing activity will increase and industrial activity we will see how it works but I am very confident about the warehousing activity in the times to come in North India.

Rajesh Ravi: Okay. And the engineering services what was the revenue contribution sir, this quarter?

P. V. Rao: It is about almost Rs. 2.5 crores.

Rajesh Ravi: Okay Rs. 2.5 crores so, almost Rs. 120 crores….

P. V. Rao: It is about Rs. 5 crores last year in engineering services. We have touched that figure in six months itself.

Rajesh Ravi: So, 2.5 crores we have done in Q2 and this was last year for the first-half this year and first-half last year would be how much sir?

P. V. Rao: Rs. 1.11 crores is the Q2 figure of last year and now it is Rs. 2.61 crores.

Rajesh Ravi: Rs. 2.61 crores.

P. V. Rao: Yes.

Rajesh Ravi: Okay. And first half also it is a significant improvement, right?

P. V. Rao: Yes, exactly. First-half we will give you the exact number. It is about Rs. 1.91 crores in the last year, it is Rs. 4.73 crores now.

Rajesh Ravi: Rs. 1.19 versus 4….

Shrikant Bhakkad: Rs. 1.91 against Rs. 4.73 now.

Rajesh Ravi: Most of it would be flowing to margins. Margin was higher…

P. V. Rao: Exactly, yes, majority of it.

Moderator: Thank you. We take our next question from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

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Pankaj Tibrewal: A couple of questions, one when I look at your business the second-half generally tends to be stronger than the first-half and historically that has been the case. When I look at your last year second-half the margins were very strong because of some of the complex orders which you guys executed. Can you give us some sense on how the second-half for this fiscal is looking like in terms of both execution as well as margin trajectory? The second question on cash flows improvement, from an aggregate basis because of inventory on debtors is not visible. How should we expect when you end the March of this year because that steel price inventory in terms of what you have accumulated probably would be running down as you execute. So, can you give us some sense on what is the targeting working capital improvement which you guys are targeting going into the March end in terms of working capital days as well as absolute amount? Thanks.

P. V. Rao: Yes, regarding your first question about the visibility for the second-half. Historically first-half is less because of the rainy season the projects will not happen, the construction will not happen. Most of the customers also would like to have their buildings for the rainy season so, that is the reason why second-half of the financial year is always good for us and incidentally the order book is also attractive this time compared to the last time. At the end of the first half last year, we were having roughly Rs. 320 crores of order book if I remember correctly. Now we have an order book of almost Rs. 431 crores. And we have second plant operating in Baroda and that is the reason we can cover the markets in Gujarat and northern part of India. So, that is one thing. Then with regards to margins, it will be steady flows, the revenues will increase because we already have an order book with us, most of which is executable in the coming six months to eight months. So, there will be double-digit, attractive growth in this financial year because of the two reasons. One, the order book is good and second, we are going to execute with the second plant in Baroda also.

Pankaj Tibrewal: So, any sense on the whole year growth which one can expect from your business going forward?

Aditya Rao: We can say double-digit definitely is what we would expect and we will have that. I mean higher growth rate than what we have already seen in first-half, significantly higher. So, we have an order book of about Rs. 430 crores. That is technically supposed to be executed within the next six months, so, even if majority of it does, even a good fraction of it, which we fully expect to happen, does convert into revenue, then we will meet and exceed the targets we have for this financial year but we would not want to give guidance but certainly higher growth than we have seen in first-half and we are geared up to make sure with additional capacity that we will achieve the higher number. And as Mr. P. V. Rao mentioned, margins would be sustained. In a high raw material price increase environment, passing on not just the increase in raw material cost but also embedded margin on that is usually a challenge for the first one or two

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quarters but as this price increases will moderate, which we expect them to in the next two months to two and half months. Then I think you will see margin stability come in and your question on working capital and inventory, Shrikant, do you want to answer that.

Shrikant Bhakkad: Yes, in terms of trade receivables where we are, I think we expect it to moderate further as the collections improve in the quarters to come. But due to the increase in the revenue that we will have and the order book that we have, the inventory would decrease based on the execution of the order book. Once the new order booking also happens in the Q3 and Q4 beginning, that when the inventory levels would be determined because we need to cover a good chunk of our order book in terms of inventory so that we do not run the risk of price volatility. So, the inventories would depend upon how the order book is like and we expect that the order book would continue to grow and the inventory will come down may be from three and half months - four months now to two and half months to three months.

Pankaj Tibrewal: And number of days in terms debtor days what you are targeting?

Shrikant Bhakkad: We plan to decrease to below 75, is what we target. I think our DSO should be in the range of 75.

Pankaj Tibrewal: 75, okay, fair enough. And the third part is on the IT Services. How do you see the ramp up of that business going into the rest of the year?

P. V. Rao: It has increased by 130% in the first-half of the year and we see similar growth because we only have orders, we will be looking at a similar growth in the next financial year also. And we expect because if you compare last year and this year, it has almost doubled and the next year also we expect the similar growth on that. Because we are increasing the offices now. Last year we did not have Visakhapatnam, now we have opened there. We are opening at Vijayawada very shortly and in the time to come we may open in Bangalore also because our intention is to take as much as possible but at the same time serving the orders also. We do not want to rush and take more orders without having infrastructure and capability to execute the projects. Manpower is the most important part. It is completely driven by man power only. We need to check it and balance it out in terms of our capabilities and the volume that we can operate. So, we are confident that we can do it. NCI, the American company we are working with, is also coming here next month. They conduct a six months' review every year and they are indicating that they will be downloading a significant portion next year. So, we have to gear up our man power levels to meet their requirements.

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

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Vikram Suryavanshi: Most of the question are answered but can you just give more clarity on Vijayawada how much would be team size there and CAPEX and currently how much team size we have increased at Vizag also?

P. V. Rao: So, Vizag, it was earlier 25 people, now we made it 45. So, there is increase of 20 people in Visakhapatnam. Vijayawada, we are opening because of division of the state, there are people who belong to that area, they do not want to come here. Some people are coming of course but some people are not willing to come Hyderabad to work. So, we thought that fixed cost will be less and rental space will be reasonably priced in Vijayawada. So, we thought of opening initially for 25 people and expandable up to 50 people in the coming year. That is what we are planning. With regarding to the capex there is nothing. Only the systems we have to give, the computers and then the software licenses. This may be around Rs. 50 lakhs to Rs. 60 lakhs. A maximum of Rs. 1 crore investment to be done.

Vikram Suryavanshi: Okay. And if you look at earlier we were talking about like almost Rs. 600 crores kind of order book so, as in where we are bidding and in line. So, how we are seeing the order traction and execution because I think this quarter probably if you take the Baroda output the execution is still low, so are we working on that front?

P. V. Rao: Our order book as of now is Rs. 431 crores and most of will be converted into sales, shipments in the coming six months because majority of the projects which are taken are three months to four months and some of them extend up to eight months - nine months also. So, whatever order book is there, we have to execute mostly. The Baroda facility, we started in May and we have reached 1,200 MT and we are thinking of putting up another additional equipment there so that we can increase the tonnage by another 1,000 tonnes. If the orders in that area increase, then we will put up the additional equipment and we are now geared with the sales team, which has also increased, in that area to cater to the Baroda plant. We are hopeful and are very positive on that.

Vikram Suryavanshi: So, out of existing order book, how much would be we can give it to the Baroda factory?

P. V. Rao: Roughly around Rs. 100 crores.

Vikram Suryavanshi: Rs. 100 crores, okay.

Moderator: Thank you. We take our next question from the line of Prem Thakkar from Unilazer Ventures. Please go ahead.

Prem Thakkar: Most of the questions are answered. Just two book keeping questions, how much was order inflow for this quarter?

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P. V. Rao: This quarter order inflow is around Rs. 220 crores.

Prem Thakkar: Rs. 220 crores?

P. V. Rao: Second quarter you mean to say?

Prem Thakkar: Yes, just Q2.

P. V. Rao: Rs. 220 crores, Yes.

Prem Thakkar: Rs. 220 crores, okay. And when we compare this quarter's margin to last quarter's margin last year we are actually seeing reduction of about 60 basis points to 70 basis points so, was it due to volatility of steel prices or is it because now we are executing lower margins on project that is the why the margins…

P. V. Rao: In the last year quarter, some of the high margin jobs were executed in the quarter and in this current quarter, there is a mix of that type of margin plus normal margins also. That is the reason why you are seeing a reduction in that.

Aditya Rao: It is a very moderate decrease. It is certainly not because of raw material steel price, because these orders were booked earlier and we are servicing them now and is before the price increase had come in. But I think the higher margin jobs that we had last year I think some of that has moderated in proportion to total revenue. Consequently, margins have declined a bit but I think what we can expect going forward is stability around this point, around 11%-12%, for the core business and as engineering services comes in, that leads to a general increase in margins. So, that is what we would guide you towards.

Prem Thakkar: Okay. So, our stable margin would be around 11%-12% but for last year or full year we had about like 14.5% so, from there you are saying it will be around 11%-12% for the core margin excluding engineering…

Shrikant Bhakkad: Excluding engineering services, 12% is what I am saying.

Moderator: Thank you. We take our next question from the line of Bhavna Thakur from Everstone Capital Advisors. Please go ahead.

Bhavna Thakur: I just wanted to find out if the given that you have seen a little bit of margin reduction is it also related to the competitive environment because obviously, and this is coming out of slow down and everyone seeing order pick-up what is the competitive environment that you are seeing around you and how you gear to sort of deal with that?

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P. V. Rao: In terms of the competitive environment, many of our competitors do not operate in the field in which we operate. For example, solar, to my knowledge no PEB company is operating in solar. Then engineering services, I do not think any PEB company is operating in engineering services. Similarly, structural steel for example, some are operating and some are not operating. Yes, there is an increase in the quote activity in the last quarter, a very significant increase in the quote activity and order intake also, if we consider Q2 of last year and Q2 of this year, there is an increase in order intake for us. So, we are expecting that with the GST coming in, our warehousing activity is going to increase and already there is a significant number of enquiries we have in terms of distribution centers, of Reliance and Amazon, Flipkart, etc. So, we are expecting a good response, may be others also may get orders, but I am expecting a good order intake in Q3 and Q4. In addition to that, the towers which we are doing for Reliance, I am expecting some more orders for the Reliance Jio Infocomm Phase II portion also. Also, engineering services being good compared to the last year, I think we are hopeful and quite positive on that.

Bhavna Thakur: Positive you will be able to pass on the prices and have a margin increase?

P. V. Rao: Yes, because if you look at our order backlog of Rs. 430 crores, almost in the last quarter we have booked about Rs. 200 crores to Rs. 210 crores. This is with the new raw material prices only because we got clear indications of the raw material increases so, we have changed the cost master and had quoted with the new raw material prices. So, that is the reason why we are covered and in the coming months also, in the long gestation projects which are about six months - eight months' projects, we are tying with the raw material suppliers and asking them to give a staggered delivery and they are accepting it.

Aditya Rao: What do you mean by margin increase, Bhavna, and what is your question regarding operating…

Bhavna Thakur: No, I was that, you were saying given that there was a little bit of price increase on raw material prices and you mentioned earlier that you would have some price increase and pass it on and so, I was wondering if you could do it given the competitive environment, and I think my question has been answered based on what you are saying that you in certain sectors are not facing that kind of competition and others because of the order book which is so healthy you think you might be able to still do that, to pass on the price increases.

Aditya Rao: Yes.

Moderator: Thank you. We take the next question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

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Rajesh Ravi: Yes, sir on your Baroda plant output you said that out of the current if I understood right, Rs. 430 crores order book Rs. 100 crores would be executed from the Baroda plant, would that be right understanding?

P. V. Rao: By Baroda plant, we did not mean fully Baroda plant. For example, structural steel, we get it done outside, not in the Baroda plant. There are some units which are in the same industrial estate, which can do structural steel and then they are hot dip galvanizing and all. So, currently, around Rs. 10 crores per month we can do at this stage and the other orders are not executed exactly in that plant but there are units in the same industrial area where we can get the fabrication done and just shift from that plant.

Rajesh Ravi: So, basically from this region you expect 25% of your order book to be executed, right?

P. V. Rao: Exactly, yes.

Rajesh Ravi: Okay. And sir, so far first-half, that proportion of the sales from this market would be how much out of your total PEB sales?

Aditya Rao: Are you saying PEB sales in proportion to total sales?

Rajesh Ravi: Yes, in proportion to total sales.

Aditya Rao: That is 70%.

Rajesh Ravi: Okay. And for the expansion that you are looking forward at the Baroda plant, new machines and all, how much would that cost sir?

P. V. Rao: That does not cost more than Rs. 2 crores.

Rajesh Ravi: Okay. And this year only you would be doing that?

P. V. Rao: Yes, we are looking at the options, if the market improves, then we will do.

Rajesh Ravi: Okay. And lastly, when you discussed on the order inflow during the quarter at Rs. 220 crores so, how does that work out because we were at Rs. 410 crores order book at the end of Q1.

P. V. Rao: Some orders will be kept on hold. When we are executing, some orders, they will say that you keep it on hold. There are shipments that takes place in Q2 and then there is an order intake that also happens in Q2.

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Rajesh Ravi: Okay. So, when we are talking Rs. 430 crores which you see execution happening over next two quarters to three quarters.

Aditya Rao: There will also be a difference in terms of what we report is the order book as it is right now but what you would see in terms of revenue passing in and out would be based on quarter performance and we are obviously more than a month past that. So, it is not strictly comparable but…

P. V. Rao: October has also passed.

Aditya Rao: Yes, October has also passed and we have given a quarter-quarter number but general trend is that the order book is getting stronger.

Rajesh Ravi: Okay. And lastly on this Q4 margin last year that we did was very strong at 20 odd percent so, that would be one off quarter in terms of margins or do we see those sorts of numbers?

P. V. Rao: Overall year wise, we are confident that it will be stable for the year.

Rajesh Ravi: Okay, on a full year 12% to 13% of the core margins what you are expecting to be stable.

P. V. Rao: Yes.

Moderator: Thank you. We take the next question from the line of Pranav Gokhle from Invesco Mutual Fund. Please go ahead.

Pranav Gokhle: Sir, this question pertaining to your financial cost. What will be the interest element and the finance cost element?

Aditya Rao: Entirely working capital based, we have no long-term debt. Shrikant, the final entire interest cost is about Rs. 4 crores?

Shrikant Bhakkad: Yes, Rs. 4.43 cr. was the entire finance cost and predominantly based on interest and the finance charges. This is predominantly the fund based limits interest expenses and the non-fund based limits, the bank guarantees and LCs that we open. The higher finance cost is again attributable to the higher inventory that we are procuring, so, the non-fund based limits that we have given is increasing and the interest on those is accumulating here.

Pranav Gokhle: So, if I just sum up the first-half number, you got a cost of about Rs. 8.85 crores on an average inventory or average borrowing level of Rs. 42 crores, this annualize works up to 42% that is the reason why I am asking you this question.

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Aditya Rao: Could you say that again, what is 42%.

Pranav Gokhle: Rs. 8.85 crores is the finance cost totally in the six months period. Your opening console debt level as I understand was Rs. 54 crores, your six months is Rs. 30 crores…

Shrikant Bhakkad: Non-cash is not taken. The number that you are saying, Rs. 54 crores, is only the fund based limits. That does not include the non-fund based limits. If you compare only the interest line expense, that will be around Rs. 3 crores of that 8.5 crores because the large significant portion of our finance cost also includes the non-fund charges which is like LCs and bank guarantees.

Pranav Gokhle: So, could you please help me understand the business in detail about this, so you are using a lot of these non-fund charges which are used for, these are used for placing bank-guarantees and LCs for booking orders?

P. V. Rao: For booking orders, we give advance bank guarantees when we take advance, we have a performance bank guarantee to be given for the last 10% of the project. The second one is LCs, we are using to increase the raw material. To buy the raw material, we open LCs. Because of the minimum import price, we have maintained huge inventory.

Pranav Gokhle: So, the cost of doing business is high, if you understand just not purely…

Shrikant Bhakkad: Yes, the non-fund based limit is high, utilization is high, that is true.

Aditya Rao: If we were to look at the total interest cost, that percentage of revenue you will come to about a 3% - 4% level, which is standard for our kind of businesses, which are yes, working capital intensive, but if you look at measures such as return on capital employed and others, they are quite good. I do not think we have dipped below 20% and in some quarters, in sometimes, it goes as high as 30% plus also. So, we do not have an alternative for this, if you want to buy a raw material, we have to open LCs, no matter how much cash we have. So, you should expect 3% to 4% interest cost consistently over the next few quarters years, as we continue to grow as well. But all this is inventory, working capital, it is not long-term. We do not have any long-term debt per se.

Pranav Gokhle: Thank you for the explanation sir. Next question is on other expenditure we have seen from Rs. 27 crores to Rs. 42 odd crores. What was contributed to this**?** The other expenditure has gone up from Rs. 27 crores to Rs. 42 crores. Could you please help me understand what has been the contributor for this higher expenditure?

Shrikant Bhakkad: When we compare ourselves, we compare ourselves at a contribution margins and our contribution margins are more or less flat as the way they are. The large part of other

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expenditure also includes the job work charges of the Baroda plant which is getting accumulated in the other expenditure and it is not part of your change in working capital or change in inventory. So, a good amount is getting captured there.

Pranav Gokhle: Okay. So, basically subcontracting and erection expenditure could be higher which has contributed.

Shrikant Bhakkad: Yes, I think another reason for this is, in the last year, in the projects that we executed, the erection part was substantially lower. In the current year, we are executing projects with a larger amount of erection.

Moderator: Thank you. We take the next question from the line of Devang Patel from Crest Wealth Management. Please go ahead.

Devang Patel: My question was regarding the higher margins we booked in some of the previous quarters and you have said that these were high margin orders, I wanted to get a sense of what kind of business gives us 15% plus margins?

P. V. Rao: In some of the jobs, high value addition is there, there are five structures or highly complex jobs. For example, high rise building we have taken, we have taken some airport job where there are five structures. We have taken from UltraTech, 95 meters Clear Span building, where there is a lot of complexity in terms of fabrication and erection. Also, in the engineering services, the margins are very high.

Devang Patel: You earlier mentioned we have got one order from GMR also for airport, so, would that again be high margin order?

P. V. Rao: I did not say it is high margin, it is steady state margin only, Yes.

Aditya Rao: GMR is not airport it is for…

P. V. Rao: Amazon, it is not for airport, it is Amazon actually.

Devang Patel: Okay. So, over the next two years - three years is there potential for us to increasing do more high value jobs and therefore increase margins from 11%-12%?

P. V. Rao: It depends on the market actually but we are definitely trying to cash in on the capabilities, executing the complex projects. So, we will definitely look for such projects and try our best to get them.

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Devang Patel: How does one get a sense of total capacity and utilization currently could you give us some ball park….

P. V. Rao Capacity utilization is around 70% as of now because our capacity theoretical if you say is 90,000 tonnes of Hyderabad facility per year. It depends on so many assumptions. In a building, you have the mainframes, you have the purlins, you have the sheeting, these are the three main components. And the assumption is that mainframes is 50% and purlins are 25% and sheeting is 25%. But in reality, the mainframes itself is going to 65% to 70% in some jobs whereas in high rise and all it is much higher. So, if the ratio varies then the capacity constraint will come in terms of beam line. So, we are now adding one more beam line in the Hyderabad plant. That will solve the problem of additional beams we have to produce and in Baroda also we are thinking of adding one beam line. The addition of a beam line does not cost more than Rs. 2 crores to Rs. 3 crores maximum, that is what we are planning now.

Devang Patel: So, what would be the CAPEX requirement for the full of this year and next year?

P. V. Rao: In the coming two years to three years, we will be looking at around Rs. 30 crores - Rs. 35 crores

Devang Patel: And other than the beam line, where would the CAPEX go?

P. V. Rao: Additional base we construct. Additional buildings we construct.

Devang Patel: So, Rs. 20 crores - Rs. 30 crores over two years?

P. V. Rao: Rs. 30 crores - Rs. 35 crores.

Devang Patel: Okay. What kind of steel inventory would we have, you mentioned overall inventory level is of three and half months currently.

P. V. Rao: Yes.

Devang Patel: So, are we covered for raw material for the next three months?

P. V. Rao: Yes, we are covered. Probably more than that.

Devang Patel: Okay. And did I hear correctly that the execution period is six months therefore this Rs. 400 crores has to be executed in next two quarters?

P. V. Rao: Predominantly.

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Devang Patel: In that case the revenue growth for the full year will be much higher then what you are guiding to earlier…

P. V. Rao: We expect good growth I would say.

Devang Patel: Okay. And in the engineering services business where you are due diligence wanted to understand what kind of capability do we want to add in this?

P. V. Rao: Only manpower. The licenses are available in the market and the computers are available in the market. There is only manpower. We source the man power from the market.

Devang Patel: It would be a low-ticket acquisition.

P. V. Rao: The Sales we have in the US. On the possible acquisition in the near future, we are talking to one company as I told you. If that happens, then we already have frontend sales in that company. We will try to increase the number of sales people in the U.S. So, frontend and project management will have to increase and backend in India. So, we have to increase the manpower basically.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management of Pennar Engineered Building Systems for closing comments.

P. V. Rao: Thank you very much for those who have participated and thank you very much to you as well for conducting this conference and we look forward to have good growth and steady margins in the time to come and we are looking at the value for the shareholders. We take necessary steps that are required to see that the shareholders are happy with our performance. Thank you.

Aditya Rao: Thank you everyone.

Moderator: Thank you very much. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited to improve readability)

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