"Pennar Engineered Building Systems Limited Q3 FY 2016 Earnings Conference Call"

February 12, 2016

ANALYST: **MR. AMIT PUROHIT -DOLAT CAPITAL MARKET**

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: Ladies and gentlemen, good morning and welcome to the Pennar Engineered Building System Q3 FY16 Earnings Conference Call hosted by Dolat Capital Market. As a reminder, all participant lines will be in 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 for an operator by pressing "*"then "0" on you touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Amit Purohit. Thank you and over to you Sir!

Amit Purohit: Thank you. Good morning ladies and gentlemen. We welcome you all on behalf of Dolat Capital to the Q3 FY16 earning call with management of Pennar Engineered Building Systems. On the call we have Mr. Aditya Rao – Vice Chairman, Mr. PV Rao – Managing Director and Mr. Shrikant Bhakkad - Chief Financial Officer. I would now hand over the call to Mr. Aditya Rao for his initial comments after which we would move on to question and answer session. Over to you Sir!

Aditya Rao: Thank you. Good morning and a warm welcome to all the stakeholders of Pennar Engineered Building Systems. It gives me immense pleasure to welcome you all to the second investor conference call after Company's listing in September. I have with me present today Mr. PV Rao the Managing Director of the company, Mr. Shrikant Bhakkad, the CFO of the company and the intention of the call would be to give you a brief on the performance of the company and then take question from you.

To give you a brief overview of performance of the company for the quarter ended December 31, 2015, the Company has recorded 138.59 Crores in gross sales which is up 13.8% over corresponding quarter last year. The net revenue grew to 116.5 Crores which is a growth of 7.3% year-on-year. The EBITDA grew by substantial amount to 14.6 Crores as opposed to 13.1 Crores a year-on-year growth was 60.4% and the profit after tax grew to 7.5 Crores for the third quarter which is 96.3% growth. We are very happy and proud of this growth specifically given the market conditions under which it

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

comes. In this quarter we have also managed to expand an order book to about 415 Crores and considering where we are what are year-to-date performance is and also what we have in our order book and our projections for this financial year we are confident of being able to achieve the target we have set for ourselves internally and we are also confident that we will have an excellent beginning to next year. With that I would like to pass it on to our managing director Mr. PV Rao for his overview on the performance of the company for the said quarter.

PV Rao: Thanks Aditya. On behalf of the PEBS I welcome all of you to investors call. As stated by Aditya we had good performance in this quarter that is in year-on-year growth sales as well as EBITDA and PAT and the order book currently stands at 415 Crores and we have recently expanded our business functions into pharma sector in a big way. We have received major orders from Mylan and Hetero and Aurobindo recently and these are big projects happening all over India and in addition to that in our solar business also we have achieved significant growth. We currently are executing around 110 megawatt projects. We started doing civil work also for solar projects and currently we have an order book of around 150 megawatts for the solar and steel also we are growing and we got approval from Danish company called Ramboll for the towers. As you know we have been supplying telecom towers to Reliance for a longtime and Reliance also buys these Ramboll towers. We got the approval recently from Ramboll for our capabilities and other thing is that we are trying to get approval from RDSO for entering in to railway bridge fabrication and we are on the verge of getting that approval as well. So we are quite hopeful about the growth of the Company even when the market conditions are not that supportivel and even in the pre-engineered building segment also we have recorded growth compared to last year and even structural steel, solar as I was telling there is healthy backlog we have and we are sure of good performance in the coming quarter as well.

Then engineering division we have opened last year. There is significant growth in the engineering division revenue also. We have opened another office in Visakhapatnam and we recruited around 25 people there for working in Tekla software and we are expecting that also to grow well in future. Regarding the North India front we have some three, four options available. We are working seriously

Pennar Engineered Building Systems Ltd.
9th Floor (West Wing), DHFLVC Silicon Towers
Kondapur, Hyderabad - 500 084
Telangana, India
CIN: - U45400AP2008PLC057182
www.pebspennar.in

on that and shortly we will be taking a decision on that. We have certain plans for some Brownfield options as well. We are seriously considering them because we do not have this in North India. So we will be shortly taking a call on that as well. Thank you.

Aditya Rao: I would like to pass on to the CFO to take you through the detailed description of the financial performance company for the quarter from the gross sales, the EBITDA, the margins to the EPS. .

Shrikant Bhakkad: Thanks Aditya Good morning to everyone. The gross revenues for quarter-on-quarter have increased by 13.8% from 121.8 Crores to 138 Crores and in terms of net revenue it has increased by 5.4% from 110 Crores to 116 Crores. EBITDA has been substantially increased 11.9%. Compared to year-on-year growth this is substantial. EBITDA has increased around 60.4% from 9.1 Crores to 14.6 Crores and PAT has almost doubled 3.8 Crores to 7.5 Crores that is 96.3% increase. In terms of percentages also it has increased EBITDA last year was 8.4% now it is 12.6%. PAT earlier was 3.5% now it is coming to around 6.5%. The EPS last year was 1.47 now it has increased to 2.42 close to 70% increase in the EPS quarter-on-quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Mr. Anubhav Gupta from May Bank. Please go ahead.

Anubhav Gupta: Good morning everyone. First question is on your revenue part. The third quarter net revenue increased 7% on YoY and the revenue is almost flat at 3 billion. So just wanted to understand the steps management would take to accelerate this growth rate during the coming quarters given that we have strong order book. Just wanted to understand how the revenue growth can accelerate from current levels.

Aditya Rao: We will answer that in two parts. Firstly the revenue growth of the company is subject to the raw material cost as well. So if you were to look at the total tonnage that we are outputting we expect extremely healthy growth over the next few quarters in terms of what we would output. Also the sales

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

of our higher margin products such as Galvalume and the sales of higher selling price products have also increased. So from a comparison of revenue for the next few quarters the order book we have is quite healthy as you said. So we are quite confident that we will be able to scale up revenues strongly over the next few quarters but the metric that we would encourage you to look at is operating margin, EBITDA, profit after tax, revenue growth will come. We have always grown in revenue but considering that steel prices have declined and they comprise almost 50% of our selling price and they are declined by close to 30% over the last year and a half the comparison may not be the most accurate one in terms of saying flattish. It is my opinion it is our opinion and I will ask Mr. PV Rao to comment on this result but it is our opinion that if raw material prices change we would be looking at close to 30% growth on top line if the raw material prices were the same for the comparable periods. I would also request Mr. PV Rao to answer.

PV Rao: Yes Aditya I agree with you. The raw material prices one year back was about Rs.42,000 per tonne, now it has come down to Rs.30,000 per tonne. There is a decline of almost 30% in raw material prices, which will definitely have an impact on the top line, but if you look at the orders what we have got recently from pharma sector and from solar and from structural steel with this healthy backlog and delivery periods are also very tight actually. So we do not have any apprehension that the revenues will be down in the coming quarters. We are definitely very hopeful that in the coming two quarters the revenue also will increase and the profitability as well.

Anubhav Gupta: Second question is on increasing EBITDA margins, obviously they are up substantially at 12.5%. So how sustainable you think these margins would be in the coming quarters?

PV Rao: We have recently taken some jobs which have high value addition in terms of fabrication of high complexity steps we have taken especially structural steel for some projects in tyre industry as well as in pharma industry, which are process equipment actually. Though tonnage wise it is less but the value addition is much higher in that, so we have executed some of these volumes in this third quarter and that is the reason why the EBITDA increase is also there and we have significant backlog of the

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

same orders in the coming quarters. Also there is lot of base effects at work here. One of the primary reasons you see for the margins having gone up is our spread has increased a bit and the base has decreased on a per-tonne basis. Our selling price per tonne has come down and our margin and our spread have gone up. Consequently you would obviously see an expansion in terms of margin. The sustainability of these margins speaks to what happens to raw material price to an extent but in terms of our operating leverage that is present within the company we do not project a margin decline in the next few quarters. We do not see that happening. That I suppose is the best answer we can give you.

Anubhav Gupta: Just last point on the announcement of new facility in North India how much capex you see there?

Aditya Rao: We do badly want to give you the details on that. We have very exciting news on that. We think it is complexion change for our company but we are still finalizing the agreement in all its details, so we would not be able to give you very much details but it is imminent. I think it is few weeks away. We will be able to give you in detail about our much delayed North Indian expansion but I think we got an amazing amount of traction in the last couple of months and in the next few weeks we should be able to give you a lot more clarity on that.

Moderator: Thank you. The next question is from the line of Vikram Suryavanshi from Phillip Capital. Please go ahead.

Vikram Suryavanshi: Good morning Sir. Can we get how much volume we did this quarter in tonnage?

Aditya Rao: Since we are a listed company I am being told that anything we tell you numbers has to be first given to the exchange. So we will do a formal release of this tonnage and then give it to you but we cannot share it but we can say a modest amount of growth is what we have, the tonnage number is not very different from last year.

Pennar Engineered Building Systems Ltd.
9th Floor (West Wing), DHFLVC Silicon Towers
Kondapur, Hyderabad - 500 084
Telangana, India
CIN: - U45400AP2008PLC057182
www.pebspennar.in

Vikram Suryavanshi: We say that we are very close to getting RDSO approval so is any improvement from last quarter to this quarter in terms of.

PV Rao: After that you see. This is the growth strategy what I have told you that we are trying for that approval now. After getting the approval then we have to try for orders. As of now the order backlog does not concern about any such orders.

Vikram Suryavanshi: Only after this approval we can bid for this L&T, which has got this bridge order in Bangladesh Sir so we can go only after this approval you can go for that.

PV Rao: That is correct.

Vikram Suryavanshi: Can we get broad breakup of in current revenue how much is from structural building and cold forms and solar.

Shrikant Bhakkad: So we have in pre-engineered building it is about 66% in pre-engineered buildings. Solar is about 7%, structural steel is about 18% and balance was buildings engineering service.

Vikram Suryavanshi: Sir you said we have started work on pharma, so what kind of work we are doing for pharma and also you mentioned something about process equipment, can you just explain a bit?

PV Rao: Earlier the pharma companies were going for concrete buildings for their formulations and vaccines and all, but now they have started depending on the steel buildings. We recently got two big orders from Mylan. One is in Pitampur in Indore and other is in Jaggayyapeta in Andhra Pradesh. We got order from Hetero also because we have process equipment support structures also. We support structures. Earlier they used to do with structural steel. Now with built up technology what we have the costs are coming down and we have good value addition in that that is why our margins are more in those.

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

Vikram Suryavanshi: How much is the revenue from reengineering outsourcing and design?

Aditya Rao: 4 Crores for the year so far at a 70% EBITDA margin.

Moderator: The next question is from the line of Lokesh Manik from Valum Capital, please go ahead.

Lokesh Manik: Good morning Sir. Congratulations for good set of numbers. Sir my question is basically regarding the industry. We have across players, across competitors and I was just going through the EBITDA margin and they have not been really doing well, just wanted an overview, I would like to understand how is PEBS better positioned than them?

PV Rao: We are diversified. One answer is that we are not doing PEB alone. We are doing solar structure, supporting structure, civil works for solar supporting structures and erection. We are in to engineering services. We are in to telecom towers. We have wide variety. Structural steel also has got process equipment a lot. We have got wide variety of business activities. In PEB also we have done most complex structures than most of the pre-engineered buildings company in India like 99 meter clear span building for Ultratech and the longest building in Dahej for ONGC Opal, 1 km long building. Our engineering capabilities and executing complex projects are well known to the market and that is why we are getting more value-added jobs.

Lokesh Manik: Does customer profile play a big part in this in terms of getting the orders that we want and do we have any predefined criteria that we operate at profitability, does customer profile play a big role in that. I was going through a customer list and most of them are MNC and reputed customers?

PV Rao: Majority, if you look at our order backlog almost 45-50% of our orders are from repeat customers, L&T, Ultratech, and Reliance. For example if you take Reliance retail business the distribution centers at Pune was built by us and Tumkur they gave it in addition to us and again we are going to execute the north indian distribution center as well, so repeat order healthy backlog we have.

Pennar Engineered Building Systems Ltd.
9th Floor (West Wing), DHFLVC Silicon Towers
Kondapur, Hyderabad - 500 084
Telangana, India
CIN: - U45400AP2008PLC057182
www.pebspennar.in

Lokesh Manik: Sir, do we have any plans in terms of getting in to rooftop solar systems?

Aditya Rao: We cover close to about 20 million square feet of industrial space every year. We are working with several large solar companies, we cannot name them right now, but we are working on with them to develop solutions for a solar rooftop market. We think it is going to be huge specifically in the industrial side in the 100-kilowatt to 200 kilowatt, virtually the addressable market for us is massive and we have a tremendous opportunity to differentiate ourselves in this plus in solar we have always been one of the market leaders. The who's who of the sola world is our customers. We are quite aggressive on this. We are integrating solar with our rooftop, BIPV essentially, building-integrated photovoltaics is a key venture for us in the next financial year and we are well placed to take advantage of this opportunity.

Lokesh Manik: Are we tying up with an entity having a background in this, supposed we had tied up with the NCI Group for our technical services?

Aditya Rao: We cannot tell you the name of the entity but yes we are tieing up with a major solar company to provide the solutions.

Lokesh Manik: Sir I just wanted to reclarify was and you mentioned that we are currently dealing with 20 million square feet of industrial space, would that be an opportunity size for us in this segment?

Aditya Rao: I would not say the entire 20 million square feet would be covered. I am saying a certain percentage of that would be covered but that itself is enough. If I cover 20 million square feet it would be close to 1000 Crores of business for me in solar. It would not be that big. It would be some percentage of that. The intention is to say that our own captive volume, our own what buildings we make itself provides us an opportunity to ensure we have a good hit rate as far as the solutions are concerned and also some part of the roof that we use, for example in a lot of buildings we are making, we made in Q3, and again we are going to make in Q1 of next year are warehouses which incorporate a double

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

locking standing seam roofing system. Putting the solar panel on that, the integration is something that has been engineered and designed and the product development has gone to a great degree and we have done this in several places already and we think it is an extremely elegant, very simple and very effective product and that would be our major driver for solar rooftop sales.

Lokesh Manik: Would you be targeting your existing client base that we have already served in the last three years, am I right?

Aditya Rao: Exactly right. Not only what we do right now even after a year higher installed base becomes an opportunity.

PV Rao: The other advantage is that we are going to collaborate in the US; the NCI by virtue of having the collaboration we are supplying the standing and sheeting called double lock. This double lock sheeting, the NCI has developed a special clip to suit this type of standings and sheeting for solar panels and also compared to the screwing down system, this standing sheet system is much suitable for the solar tops.

Lokesh Manik: Sir, what would be the outstanding order book for solar projects as of date for the solar division?

Shrikant Bhakkad: In terms of megawatt it is about 150 megawatts.

Moderator: The next question is from the line of Jayesh Gandhi from Birla Sun Life Mutual Fund, please go ahead.

Jayesh Gandhi: Good morning gentlemen. First of all my heartiest congratulations for good set of numbers. Just couple of clarifications required. Did I hear correctly that the volume growth in the first nine months is also not that great, so I guess we made significant margin expansion because EBITDA growth has

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

been pretty good, so the margin per project or margin per tonne of supply has been significantly better, is my understanding correct?

Aditya Rao: You are correct sir and also the nature of projects and nature of products sold also is different. The mix is different. The per tonne price has come down. The tonnage has been, I would not say flattish, it has been a modest amount of growth but more appropriately I think the sale of what the tonnage that we are selling also products incorporating Galvalume PPGL and BGL have increased by a lot. Our entire solar business uses Galvalume, which is a much higher value-addition product, so that is the reason why margins have gone up. It is a direct consequence of our spread as we call. If you wanted to do a per tonne thing, the spread rupees per tonne has increased a lot.

Jayesh Gandhi: Would you be able to give us that sense that compared to last year nine months and this nine months what would be a broad range of increase in per tonne kind of profitability?

Aditya Rao: Between 5000 and 6000 rupees and we will get you the exact number.

Jayesh Gandhi: The percentage would be better because I do not know the number for last year and number for this year.

Aditya Rao: Percentage increase would be about 3 to 4 basis points.

Jayesh Gandhi: What was the broad range last year in terms of EBITDA per tonne or profitability per volume matrix and what is it this year in terms of rupees.

Aditya Rao: Rupees per tonne would be 2654 rupees per tonne was EBITDA last year. This year it is 3817.

Jayesh Gandhi: Is this the first nine months number?

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

Aditya Rao: This is for the YTD number.

Jayesh Gandhi: Which is a 50% increase in EBITDA per tonne basically.

Aditya Rao: 44%.

Jayesh Gandhi: Second question I had was on the order book, again because of the low steel prices order book increase is not that visible but if you were to take the next 12-18 months view what kind of volume or what kind of broad range of business increase do we expect?

Aditya Rao: It would be difficult to give you. We would be getting in to an area of guidance here, but what we can tell you is what our intentions are right now. Our order book is big right now. We are full and quite frankly our factories are firing on all cylinders to make it happen. In the next financial year we also have plans to have a North Indian plant up in a very quick matter of time. Maybe there are few weeks to a few months away, so that will play a big role in terms of the revenue impact that would come in. In terms of precise percentage growth I would not be able to give you strong number right now, but we always target and achieve double-digit growth in any financial year and that I assume will continue to our intent but we are far more focused on EBITDA and PAT growth, but that does not mean that we will neglect revenue growth but I think we have to now start looking at locational expansion, capacity expansion further to serve the North Indian market and that will help us increase our order book also.

Jayesh Gandhi: I can understand the constraint, I guess, maybe what I was trying to understand was that we have had stupendous growth in EBITDA and profitability over the last three years, would that same pace continue is what I was trying to understand for the next few years?

Aditya Rao: We expect that to happen. It is our desire to see exactly that and the mix of revenue growth that comes in margin expansion that comes in from scale and also our engineering services business which this

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

year is adding more than a few Crores to our EBITDA, significant percentage of our EBITDA will be engineering services. That share will only increase next year. That will all contribute to definitely what our intention is to prolong the EBITDA growth and profitability growth that you see.

Jayesh Gandhi: Currently what would the utilization in our factories that we have, would it be upward of 90%?

PV Rao: Around 67%.

Moderator: The next question is from the line of Gaurav Maheshwari from Unilazer Ventures, please go ahead.

Gaurav Maheswari: Hi Aditya.

Aditya Rao: Hi Gaurav, I know what your question is going to be.

Gaurav Maheswari: If you can just give the working capital cycle to start with.

Aditya Rao: I will give it over to Shrikant for the working capital cycle. Our answer will be complex on this, but do bear with us but we are currently facing multiple trends where there is minimum import price has been imposed. Consequently the raw material procurement, we had placed an order for 6000 tonnes yesterday, 5500 in the previous month. There are certain decisions we are taking considering our order book and to make sure we are fully covered because we fully expect steel prices to go up because of MIP that is being imposed by the Indian government and also I know you will have questions on other working capital cycle, other current assets which I will just give it over to Shrikant to explain the status of it.

Shrikant Bhakkad: As Aditya explained about the inventory, we are actually procuring a lot of inventory because in the order book that we already have and considering the steel prices the minimum support prices that is being indicated, so there was a modest flight in the working capital, part of it.

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

Gaurav Maheswari: Can you give the absolute numbers for inventory, trade receivables and the creditors as of Q3 end?

Aditya Rao: Because it is not given to the stock exchanges. Typically we do a balance sheet six months and one year, so this is data we will give out and then talk to you about it but we can give you broad trends but the information I think that can be given out right now is that inventory is high, it is trending higher because of MIP requirement that has increased working capital temporarily. As the clarity comes in MIP we will ramp back our working capital cost. In terms of other current assets, which is accounts, receivable I know the reason you would be asking is because there is a huge jump last quarter. We will give you that exact number but we are not seeing a corresponding large jump in this quarter. It is more or less flattish and we will give you that number once we have given the entire balance sheet data. That is what we are being told. Other current assets, because inventory prices are high, payables also has increased but we will endeavour to give you total current assets, total current liabilities and consequently working capital to everyone but we believe we can explain the increase and the increase is of a nature….

Gaurav Maheswari: Aditya, basically the question pertains to the problem that we have been discussing is that when we compare yourself with your peers the trade receivables for us seems to be too high because typically, if my understanding is right, you will book revenues once the final product is shaped out and if that is the case I think 70 or 80% of the money we would have received when the final product goes out, so why do we see such a high receivable days in your books as compared to your peers unless and until we are booking the revenue at day one when you receive the advance payment, that is what I wanted to understand from the accounting, when do you book the revenues first or all?

Aditya Rao: That is one thing we would never, never do. I think the auditors Deloitte and we follow the Asian Accounting Standard. What you said is right. Historically for us also what you would have seen is that our account receivables is a function of our shipping and immediately recognizing revenue and also because most of it is LC backed we get that cash flow in as well, so account receivable does not blow up. Typically we hold about two months of account receivable cycle. What has leaded to that

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

increase is a combination of things. One, we report every quarter end, so March when we had reported we had a very big March quarter, so that had resulted in a slight increase and similar number had happened in September as well. One thing that is why account receivable is little higher is that some of the jobs we have taken so far this year are jobs where the margins are stupendous but payment terms are something that have been stretched out a bit. That is not to say we do not recognize revenue after shipping. We do recognize revenue after shipping but the payment cycle instead of the traditional two months when it comes has come to about three-and-a-half months, little more time and the reason and rationale for that is these are jobs where the payment permission requires multiple steps to be taken in order for us to realize that revenue and we have taken this in full cognizance of the fact that this will result in expansion of our working capital cycle of our account receivable but the margins are so much higher than what we typically get that this is something that we felt we should do this. That being said, by the end of the year when we do our balance sheet we are quite confident that we will get this back to historical norms but of course if an opportunity comes up again, if further order is coming up then there will have to be a continual expansion again of working capital cycle. We will give you this account receivable number but right now all I can tell you is there has not been that kind of corresponding increase that you saw last quarter, that has not gotten repeated for it to get back to historical levels which is about a two-month operating cycle will take a few more months.

Gaurav Maheswari: Sir, basically my question pertains to, whatever we have understood and whatever agreements we see you signing with lot of other people what we understand is that you ask for money for at every stage, X job is done, you ask for money, so by the time the material leaves, I think 80-85% of payment is received and if you are booking the revenue at that stage ideally the debtor cycle should be only for the 15% of the sales even if it comes after two months it should be much smaller, so is my understanding wrong in that case?

Aditya Rao: For most projects you are right but as I mentioned there are some projects, which we have taken which are high margin, which are modifying their cycle a bit, and we added about one-and-a-half months to our account receivable cycle. That is the challenge we faced. Are we comfortable to taking this slightly higher account receivable cycle temporarily to make sure our margins that are coming in are much higher that is something we have taken and you are right for most part I think what your understand that we do get some milestone payment and then we ship, we get 90% because of LC is more or less right, 80-85% is right but there are altered projects also which we have taken because of higher margin which are quite secure, we do not believe that there is any harm of us not getting that money but this is higher working capital cycle. I would also ask Mr. PV Rao to comment on that.

PV Rao: There are certain projects like Boeing and Power Grid Corporation, which require various stages of inspection even during installation. That is the reason it is spread for couple of months more.

Shrikant Bhakkad: The jobs are basically higher margin jobs but with increased payment cycle.

Shrikant Bhakkad: As a company we look at a certain account receivable cycle, a certain working capital cycle, number of months. Traditionally it used to be two months. It expanded in the past couple of quarters primarily because of these orders that have been taken and also because of the time at which it has been recorded but we do not see any harm here. We would warn you. I understand your concern and I know exactly why you are asking and why you asked this question last time as well, but we are very confident that the cash flow that are coming in to the company are strong and secure. We continue to have positive operating cash flow and we will try to demonstrate that to you as well once we publish these balance sheet numbers, but my belief is we will have to be happier with a slightly elongated account receivable cycle for the next few months until we finish these jobs and we get back to our regular jobs dominating.

Gaurav Maheswari: That is okay Aditya but I think still you are not getting my question. My question basically pertains to on the receivables side, if there is a 100-rupee job that you are doing and you are shipping it out in March end, March end 80 rupees you would have already been received and March end you would have build a 100 rupees. The only balance that is left out is 20 rupees. The 20 rupees on 100 Crores sales just at 20% and that too for that month and even if you are saying you are taking some higher working capital days order I am sure that you would have received some milestones there also, so the receivable days and this thing does not jell well.

Aditya Rao: I think I understood your question finally Gaurav. This is what actually happens. You are right but there are some nuances here. When we book an order typically we get some 10% to 20% advance, now that is not revenue. That is cash flow yes, but it is not something that is recognized as revenue but we get that in terms of cash flow. As I keep design drawing others I do get some payments but I do not really raise invoice, they are cash flow issues. Once I am shipping I raise an entire supply invoice and then I get an LC. So my cash flow will come in into the company but I do not recognize it as revenue and even an LC we do not discount LC, so after we ship in several cases after goods have been received by the customer we get the GRL in, we supply the LC negotiations to the bank and then negotiate the LC which takes time, which takes 15 days, 20 days, it can take up to a month sometimes, some of these payments would be linked to installation as well, there is a nuance there but effectively what you have to take is as an average two months account receivable is something we will see because we have mixed job which are LC which are open credit and open credit are typically the big customers, the people we have worked with for a long time and that also carries a two month operating cycle. After we ship, two months later, they give us the money, so that is typically the way it functions. The expansion has been because we have this existing framework where we have open credit orders which are coming in two months, then you have these LC based orders which you may get some cash flow in terms of advances and LC but the discounting process takes a little bit of time which gives you at least a month or little more and you also have now these other orders which we have which are at a higher margin but have a slightly longer account receivable cycle because there are milestone payments to be made. We have to submit certain other documents, certain certifications and the entire thing has made the account receivable cycle a little bigger, so what you are saying in terms of me shipping out 100 rupees and then 85 is not true because I may get the advance money, I may get some milestone money but I cannot recognize it as revenue, I cannot recognize it as collections until I have fully shipped and then gotten it back to the company. They would lie as advances, so current liabilities would go up but I cannot net off current asset versus a current liability.

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

Gaurav Maheswari: On the volume growth it is pretty good to see the EBITDA numbers having gone up from 2600 rupees to 3870 per tonne and that is what you are saying is lead by the higher margin jobs that you have taken up, so on the volume growth, even if I see your overall number on the order book, I am sure that order book can be a misnomer number because of material price deflation steel price deflation which has been almost a 400 Crores for almost last three quarters now, so but why is the volume growth been quite tepid over the past nine months because we have seen the company growing at a much, much higher pace in the last five years?

Aditya Rao: The composition has changed, volume growth you are right but when you talk about volume growth it is a mixture of our HR shipments, our secondary shipments, our Galvalume shipments and prepainted Galvalume shipments, so prepainted Galvalume is the most expensive and the bottom one is the least expensive, those are all our finished products, essentially the products we ship out. You have to add to this our solar shipments which are also Galvalume based and also certain other products like, accessories like doors, windows, fiberglass, polycarbonate, all of these things, all of this essentially makes what we ship out, these are products we ship out which we go in to the variety of things we make, now when you devise it as a tonnage number it is a little difficult to explain in terms of exactly why tonnage has been flat. Tonnage has been flat, but solar has grown in double digit numbers and also our PEB tonnage has also grown but because the tonnage growth has been on the higher value things, the Galvalume sales have grown a lot more, as our PPGL sales also have grown a lot more, in fact a lot of warehousing models we are doing, roofing is all prepaid and Galvalume which is highest thing, so effectively the spread on what we get has increased and tonnage value we see is flattish, the actual products we are shipping out has resulted in higher EBITDA growth. The mix has changed, so it is not comparable is the basic one liner.

Gaurav Maheswari: Do you expect the mix to remain this or improve from hereon?

Aditya Rao: The mix will actually change more also; effectively we will expect every segment to go up. A lot of this has to do with the capacity which we have right now and also locational capacity, I think it is

Pennar Engineered Building Systems Ltd.
9th Floor (West Wing), DHFLVC Silicon Towers
Kondapur, Hyderabad - 500 084
Telangana, India
CIN: - U45400AP2008PLC057182
www.pebspennar.in

about time now that we have that second plant up and we are gunning hard to make that happen very soon, but were that to happen, yes we expect overall tonnage growth to grow, yes but the mix again would change, we think that fair share of Galvalume versus regular will increase even further and obviously HR as a percentage, the lowest cost tonnage would continue to decrease as a percentage of total tonnage.

Gaurav Maheswari: Your capacity would stand at 90,000 only because you are planning to expand the Hyderabad by another 30,000 or that is not happening right now.

PV Rao: Currently, we are focusing on the North Indian plant. Once that is done and then looking at the market conditions, we may take a call.

Gaurav Maheswari: Right now the capacity stands at 90,000.

Aditya Rao: Yes.

Gaurav Maheswari: Would the new plant be at 30,000 to start with?

PV Rao: Starting with 30,000 but it is expandable to 60,000. We are looking at options in Gujarat and Rajasthan, various options are there, some brownfield options are also there, we are evaluating them and we will take a call very soon in few weeks time.

Moderator: The next question is from the line of Levin Shah from Value Quest, please go ahead.

Levin Shah: Good morning sir, congratulations for good set of numbers. Firstly you said that for nine months the volumes are more or less flat and if we compare EBITDA per tonne that has gone up by around 44-46% and that includes the engineering business EBITDA which would be roughly around 2.5 Crores.

Pennar Engineered Building Systems Ltd.
9th Floor (West Wing), DHFLVC Silicon Towers
Kondapur, Hyderabad - 500 084
Telangana, India
CIN: - U45400AP2008PLC057182
www.pebspennar.in

If you remove the 2.5 Crores then the jump in the EBITDA is close to 35%, can you just explain the difference.

Aditya Rao: Why the EBITDA per tonne, 33% which it comes to about 3000 rupees per tonne as opposed to 2600 is what you will get.

Levin Shah: 3870 right.

Aditya Rao: But you are removing engineering services right.

Levin Shah: Okay, so this includes the engineering services.

Aditya Rao: Yes, it does.

Levin Shah: This EBITDA per tonne includes the engineering services.

Aditya Rao: We have nothing below EBITDA. We only have our provisioning, which we do for bad debts, the depreciation and finance.

Levin Shah: Sir on the engineering service business for nine months we have done a good number that is around 4 Crores, so for full year what you are expecting and on a broader level what would be the opportunity that we would be catering over the next two to three years?

Aditya Rao: Full year guidance I cannot give you. I can tell you that we have actually underperformed. We wanted to do a lot more, four is actually, we have refused orders frankly and our goal will be to make sure we have enough capacity and we scale this business up further, but there is a tremendous amount of potential to scale this business up, we have customers in the US whose name I will not tell you, but this entirely US based business. We are also adding capabilities in Tekla as Mr. PV Rao has

Pennar Engineered Building Systems Ltd.
9th Floor (West Wing), DHFLVC Silicon Towers
Kondapur, Hyderabad - 500 084
Telangana, India
CIN: - U45400AP2008PLC057182
www.pebspennar.in

mentioned we opened a new office in Vizag. We intend to open a new one in Bangalore as well. This is a business vertical, which we think the addressable market size is quite vast. What the little we mapped out is even with the current capability subset itself is about $250 million. The niche capabilities it caters to the set of companies in the US but still the addressable market size is large and we are constantly adding new customers, new capabilities and new teams. Essentially we have to spend some time with the customer, understand his standards and develop the design and detailing capabilities so we can cater to them. That is happening and I am pretty confident that next year you will see very healthy growth in this business. Even this year, while there has been a lot of growth over last year we believe this year too there could have been a lot more possible but we will try to reach a much higher number next year.

Levin Shah: Sir you said $250 million that would be the opportunity for the US market specifically right?

Aditya Rao: That is a bottom-up summation of what addressable market opportunity would be for all companies in the US we can currently cater to.

Levin Shah: Any target or any market share in your mind that you would be catering over next two to three years you would be looking to cater?

Aditya Rao: Could you say that again?

Levin Shah: Any target in your mind that X amount of market share you would be taking from that pie of opportunity.

Aditya Rao: Our market share right now with our current customer is close to 100%. All of our customers are never outsourced before or are not outsourcing currently but I think if you were to look at what we would target I think over the long term something like 20% is sustainable.

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

Levin Shah: Of this market size which we have figured it out?

Aditya Rao: Yes, that is correct.

Levin Shah: Sir on the solar business you said that the work that you have already done that gives you an opportunity to the tune of 20 million square meters.

Aditya Rao: 20 million square feet is every cover. We also have a big bank of orders, which we have already executed, which is much higher than that. One of the largest buildings we have made is about 14 million square feet, so one building is 14.

Levin Shah: Sir, if we try to cater to this opportunity that we have, what would be the size that we will be looking at in this business?

Aditya Rao: I believe it can be very high. It would not be prudent for me to give out numbers in terms of what we are targeting but it is very big. If you look at globally solar rooftop companies like Solar City and others are hundreds of millions of dollars, so we have no reason to expect that India will not be able to have these companies and we intend to be one of these companies, which is at the forefront of solar rooftop.

Levin Shah: Sir, the kind of services that you will be offering, would that be only products or would it be complete EPC?

Aditya Rao: We would offer EPC as an outsourced service as an erection but what we will not do is a BOOT kind of model. What we will effectively do is sell standardized kits for retail customers and for industrial customers we would have an integrated solution where while we are designing the building or this building is already been designed by us, we will incorporate this and sell, not just buildings but energy efficient solar buildings.

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

Levin Shah: We will sell the products. We would not go for BOOT kind of thing.

Aditya Rao: No I do not think we will work for that kind of business model.

Moderator: We take the next question from the line of Amit Shah from Motilal Oswal Securities, please go ahead.

Amit Shah: Sir, just wanted to know of the total order book that is 415 odd Crores how much is from solar?

Aditya Rao: About 65 Crores.

Amit Shah: Sir most of our order book is fixed in nature right, fixed price?

PV Rao: Most of the order book is fixed, but there are some orders where it is linked to approval of drawings. It is linked to payment of advance; all these things are there. If they have not paid advance. If they have not approved the drawings sometimes our price does not hold good.

Amit Shah: Sir of the total order book as you rightly mentioned that you have gathered some inventory for the last two months, so what percentage of that order book would have been covered with this particular imports of steel?

PV Rao: Almost 85%.

Amit Shah: 85% of the order book has already been covered.

PV Rao: Almost.

Amit Shah: Sir on the order book front if you can just give a break up on the industry size like how much is from the solar, how much is from the process industries and how much is from the industrial side of it?

Pennar Engineered Building Systems Ltd.
9th Floor (West Wing), DHFLVC Silicon Towers
Kondapur, Hyderabad - 500 084
Telangana, India
CIN: - U45400AP2008PLC057182
www.pebspennar.in

PV Rao: Out of 415, about 330 Crores is from pre-engineered buildings, roughly about 60 Crores is from solar, around 55 Crores is from structural steel and engineering services we have about 4 Crores, balance is cold formed buildings.

Amit Shah: Sir, as you mentioned process industry you are getting good margins because of the complex nature of order, so what would be the orders, which are there from this particular industry?

PV Rao: Out of these orders around 20% are of this nature.

Amit Shah: Is that executable over the next six to nine months?

PV Rao: Yes.

Amit Shah: Similar mix if you can give me on the revenue side, how much is from the solar and process industries and structural steel?

PV Rao: That breakup we have not done and I do not think we can give at this time.

Aditya Rao: We have not given that right now, we would not be able to give it to you, but we will compile that and we will see, if we can declare it out we will give it but roughly same proportion, right now we cannot share exact numbers but we will get back to you.

Moderator: As there are no further questions I would now like to hand the conference over to Mr. Amit Purohit for his closing comments.

Amit Purohit: Thank you. We thank everyone on behalf of Dolat Capital. Thanks to the management for giving us the opportunity to host the call. Hope this was very informative and fruitful for all of you. Thank you Sir.

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in

Aditya Rao: Thank you.

Moderator: Thank you members of the management team. On behalf of Dolat Capital Markets that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)

Pennar Engineered Building Systems Ltd.

9th Floor (West Wing), DHFLVC Silicon Towers

Kondapur, Hyderabad - 500 084

Telangana, India

CIN: - U45400AP2008PLC057182

www.pebspennar.in