Pennar Engineered Building Systems Limited
Q4 FY16 Earnings Conference Call

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MODERATORS: **MR. MANISH RAJ – DOLAT CAPITAL MARKET PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Pennar Engineered Building Systems Q4 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manish Raj of Dolat Capital. Thank you and over to you, sir.

Manish Raj: Thank you, Karuna. Good morning all, we welcome you on behalf of Dolat Capital and Pennar Engineered Building Systems to discuss the Q4 FY16 Results and Business Outlook. We have with us Mr. PV Rao -- Managing Director and Mr. Shrikant Bhakkad -- Chief Financial Officer. As of now, I will hand over to Mr. PV Rao for his opening remarks and to discuss the results and then he will answer your questions. Thank you, sir.

PV Rao: Yes, good morning everybody. I am happy to announce that we have completed the audit and we have completed Board Meetings also yesterday. And I will let you know the highlights of the quarter four and FY'16 performance.

Our order book as of now stands at Rs. 424 crores. We received major orders from L&T Construction, TVS Infrastructure, Gamesa, My Home, Hetero Drugs, Annora Pharma, Himedia Laboratories, SRR Projects, RKV Developers, Indus Projects, Ashapura, and Avenue Supermarkets.

Our perspective orders which we are trying to get are worth 55,000 tonnes which are in the pipeline. In regard Engineering Services, we received new jobs in Tekla Structures and presently we are increasingly the man power Vishakhapatnam office which we have established recently to provide Engineering Services to our U.S.-based clients. The manpower strength for NCI jobs is 84 in both locations Hyderabad and Vishakhapatnam.

The other highlights are we have taken a production facility on a Job-Work model at Baroda and the production has started in the month of May, so orders in and around Madhya Pradesh, Gujarat and North India are being manufactured at this facility. We are evaluating various options of setting up a permanent facility and the board has approved the term sheet signing with Engineering Services firm. We are entering into a term sheet with an Engineering Services firm to have Engineering Services business in the U.S. and in the backend office in India.

I will hand over to Shrikant, our CFO for explaining the financial results.

Shrikant Bhakkad: Good morning, everyone. We have grown in terms of sales from Rs. 502 crores to Rs. 508 crores, in terms of net revenue from Rs. 445 crores to Rs. 446 crores. EBITDA has significantly improved from Rs. 46.7 crores to Rs. 65.04 crores for the year and in terms of EBITDA margins versus the last quarter, there is a substantial increase. The net profit for the company is also gone up from Rs. 21.9 crores last year to Rs. 30.1 crores and the percentage wise we are up.

In terms of financial results where we are in year-to-year comparison. EPS has gone up from 8.57 to 9.47. Utilization of IPO proceeds have been given in the Audited financial results that we have signed and submitted to Stock Exchanges. The present Rs. 30 crores of net profit is after a tax expense of Rs. 1.85 crores of the earlier period tax and if we take that out, the profit after tax for the current year stood at approximately Rs. 32 crores.

In terms of balance sheet, will take you through the major highlights. Increase in the orders from customers resulted in an increase in the advances from the customer, which has gone up to about Rs. 32 crores. Other balance sheet items, there is an increase in terms of borrowing and similarly an increase on the outstanding that we have.

In terms of debtors, we are substantially able to reduce from last half year where we were, from Rs. 180 crores to Rs. 140 crores, the trade receivables have significantly come down though it is slightly higher from last year of Rs. 127 crores but we expect that to reduce over a period of time.

With this, if you have any questions, we can get into the details.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Anubhav Gupta from Maybank. Please go ahead.

Anubhav Gupta: Right, my first question is related to your revenue performance. Obviously because of low steel prices, the revenue in value terms looks flat on Y-o-Y basis, so could you tell us more about the sales volume growth which you saw in last year and given the order book of 4.2 billion as of today. How do you see your sales volume going in FY'17 and FY'18?

PV Rao: See we have in terms of order that we executed last year comparatively compare to the previous year there are high complexity some of the structures are pipe structures for example Kannur International Airport or UltraTech 90-meter Clear Span Building at Gulbarga. These are all high complexity jobs where the rupees per tonne is high. So in terms of volume wise normally, this business is governed not by the tonnage but by the complexity of the jobs which we execute. But if you really go by only tonnage basis you can see there is growth of around 8% to 9% in terms of tonnage compare to the last year. But in terms of the rupees per tonne because of the high complexity jobs we are able to get much turn profitability because there is a lot of double side building jobs, a lot of pipe sectors we have done and ITC, one job which we have done at Bangalore which is 14 storage high building where there is a lot of bridges have to be constructed and all so there is a lot of complexity compared to the previous year that is the reason why to increase in terms of profitability and as you said because of the steel prices decline the top-line has not increased much.

Anubhav Gupta: Yes, right. And what kind of sales volume growth you see for FY'17 given that you have a clear visibility on the backlog and renew orders which you could secure in next few months?

PV Rao: So we have now the second plant in Baroda and we have large order book and we definitely expect a significant growth because it is forward looking I cannot tell the numbers but it will be a significant growth definitely.

Anubhav Gupta: Right. And the EBITDA margins which you earn for FY'16 were around 15%. So how do you see these margins being sustainable in FY'17 and FY18 or there is further scope of improvement?

PV Rao: The reason is that the volumes now will increase because of the Baroda plant, because of that fixed cost will not increase linearly and the top-line will increase and that is the reason why we are very confident that, we will not be increasing the fixed cost to the tune of revenue increase. So that is reason why we are very confident that our bottom-line definitely can be sustained.

Anubhav Gupta: Right. And lastly, which sectors you are seeing most demand coming from for example Pharma or Warehouse like which sectors…

PV Rao: Pharma, Tile Industry and Warehousing. These are the three industries and Solar, where there is a significant growth we are expecting.

Moderator: Thank you. Next question is from the line of Jignesh Kamani from GMO Group. Please go ahead.

Jignesh Kamani: If you take about receivable have you increased reduced from Rs. 173 crores in the first-half to Rs. 140 crores but if you compare with last two years - three years it is still it is alleviate. So if you take about FY'13 or FY'14 we are close to around 65 days to around 80 days in FY'15 during IPO time you mention that bump in FY'15 ratio partly because of fourth quarter and volume growth was very healthy and gradually it will normalize so, in next six months or one year where you see the receivable days coming down to?

PV Rao: If you see the receivables, last six months back it is about 180 crores now it has come down to Rs. 140 crores. There are some high complex jobs which we have taken where the contribution levels are very high and we are expecting by another six months our receivables should be lower then what it is now. In terms of share price and all I cannot comment on that….

Jignesh Kamani: No, I am not talking about share price I am talking about during the IPO time I can say your receivable days on the 15th was very high because on the fourth quarter we take larger order, we would take FY'13 and FY'14 we use to be around 70 days to 80 days kind of receivable which close to 100 in FY'15 partly because of one-off. So on steel you can say we have not come down to FY'15 still it is elevated which was also abnormal year for us in terms of receivable.

Shrikant Bhakkad: I think we have constantly reduced from 170 to 140 in the current year and we are still trying to get the receivables there. Again, quarter four has been larger of 139 and if you see it is only three months now and by next six months I think we will bring it down to two months and the accounts receivable will be normal. So I think next two months we will have a lot of money coming in as the projects get completed and by next six months, in September I think definitely it will be not more it will be around 60…

PV Rao: Some of the important projects like MRF, Kannur International Airport, UltraTech and some of this where some retention moneys are there which we are expecting because we are completing the jobs in this month or next month.

Jignesh Kamani: So what was the steady state receivable ones would factor currently?

PV Rao: I would say around two and half months, I would say.

Jignesh Kamani: Two and half months?

PV Rao: Yes.

Jignesh Kamani: Okay. And second thing, if you talk about the Baroda plant since you took on a job work basis so margin from the Baroda plant will be dilutive because you have to set-up a part of the margin for the job contractor?

PV Rao: But there is transportation savings, we can save in the transportation.

Jignesh Kamani: Okay. So net-net there would not be any dilution?

PV Rao: No, this plant is near to the ESSAR Steel Plant also where the incoming raw material is also nearer to us. So incoming raw material cost is reducing and outgoing freight cost is getting reduced.

Jignesh Kamani: Sure. And what kind of revenue we did in the Engineering Services division for the full year?

PV Rao: We did around Rs. 5 crores.

Moderator: Thank you. Next question is from the line of Ankit Shah from Vallum Capital. Please go ahead.

Ankit Shah: My question was regarding the EBITDA margin, a you mentioned it has improved as we can see by almost 400 basis points this is basically due to the reason of our as you said complex purchase and the value added that we have been done.

PV Rao: That is correct.

Ankit Shah: That is all reason?

PV Rao: That is correct, Yes, that is one thing, another thing is the Engineering Services also. Engineering Services if you compare previous year we did only Rs. 1 crores but this year we did about Rs. 5 crores in Engineering Services where it is almost a 70% - 75% EBITDA type of business so that is another significant thing which has happened in growth of EBITDA.

Ankit Shah: So Rs. 5 crores is the EBITDA contribution on the top-line?

PV Rao: Rs. 5 crores is revenue, roughly around 4 crores is EBITDA.

Ankit Shah: Got your point. And sir, just your point on the competitors such as Everest Industries EBIT margins are close to around 4%.

PV Rao: Yes, I know that.

Ankit Shah: So what would these… and they have pretty volatile margins.

PV Rao: The companies like Everest and all, I know are not executing high complex stuffs like what we are doing. For example, we are doing about 90 meters, 95 meters Clear Span Building with pipe structure and all which Everest has never done before. In the airport job, Kannur International Airport which is also a high complexity job. So that type of jobs they are not handling. In this competitive market it is always advisable to take more complex jobs where your rupees per tonne will be higher and your contribution levels are higher and Everest has not been even listed with some of the important consultants also where there is a high complexity job. They are not calling them for even quoting purpose also.

Ankit Shah: Okay. And so what will be your number of engineers in the Engineering Services…

PV Rao: 150 as of now.

Ankit Shah: And if you can just provide number of customer's repetitive customers if you could?

PV Rao: Repetitive customers are 46% we have repetitive customer in terms of percentage.

Ankit Shah: 46?

PV Rao: 46% repetitive customers.

Moderator: Thank you. Next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: Yes, so first of all if you can just give the specific volumes for the full year.

PV Rao: Volume in terms of tonnage?

Gaurav Maheshwari: Yes.

PV Rao: We supplies around 57,500 roughly.

Gaurav Maheshwari: 57,500?

PV Rao: Yes, roughly.

Gaurav Maheshwari: Okay. And what is the reason for the sharp jump in margins that we have seen specifically in…

PV Rao: The jumps which we handled last year our high complexity jobs involving pipe structures with double side building and now also these are signature projects like Kannur International Airport, and ITC, A Multi Storage Building in Bangalore and UltraTech 99 - 95 meters Clear Span Building, all these buildings are not normal Pre-Engineered Buildings type they are a different type of structures where the complexity is very high and they cannot be compared with the tonnage also because we quote on a lump sum basis and we have higher profits because of that reason. The other reason is that the Engineering Services also has contributed significantly to our EBITDA growth. We did about Rs. 5 crores for Engineering Services which is catering to NCI USA and in that almost roughly about Rs. 4 crores is EBITDA. These are the two reasons why there is a significant jump in the EBITDA.

Gaurav Maheshwari: So my understanding was that this Engineering revenue in the nine month it self we have done Rs. 4 crores so are you seeing that this entire Rs. 5 crores has been booked in Q4?

PV Rao: I have to check, totally it is about Rs. 5 crores.

Gaurav Maheshwari: That is okay, because my question pertains more onto the Q4 because Q4 we have seen a sharp margin improvement.

PV Rao: Q4 is done because of the complex jobs high complex job. Rupees per tonne is much higher, almost Rs. 110,000 so normally we are selling at Rs. 80,000 - Rs. 85,000.

Gaurav Maheshwari: Will you able to provide the volumes for Q4 itself?

PV Rao: Q4 volumes I have to check, I do not have in front of me. It is roughly, it should be around 12,000 - 12,500.

Gaurav Maheshwari: 12,500, okay. Because when we see your pending order book and the volume details that you have given those will be typically Rs. 76,000 - Rs. 77,000 on average realization going ahead. So the pipeline that you have would not be having these kinds of margins is that the right understanding?

PV Rao: We have as of now. The current jobs which we are handling are not yet completed. Jobs like Kannur International Airport, ITC are only 50%-60% completed. Still we have jobs of that nature and we got warehousing jobs also recently, which are very high margin jobs so, we are very confident that we can sustain these growth in terms of EBITDA.

Gaurav Maheshwari: Okay. Can you throw some more light on this Baroda thing what is the kind of capacity that is there with Baroda?

PV Rao: Baroda capacity the unit is 30,000 tonnes per annum and we have taken on a Job-Work basis and currently we are in search for land in Dahej and other areas GIDC area to take plot and then construct our own plant and this is a temporary arrangement because we want to test the market and because we want to execute the jobs that are related to Madhya Pradesh, Gujarat, Rajasthan and North India. We started from this month onwards and we started operating in the second shift also from yesterday and this arrangement is for about six months to nine months and during this time we are confident that we will be able to establish our own unit there.

Gaurav Maheshwari: And we do not have any plans of expanding our capacity in Hyderabad itself?

PV Rao: Hyderabad, no, we do not have plan because when the North Indian plant comes on the load of North India and that is the reason we will be diverted to that area.

Gaurav Maheshwari: Okay. Would you be able to throw some more light on this the board approval for this Engineering Services what kind of…

PV Rao: Engineering Services I cannot disclose the name of the company but Engineering Services we are dealing with one company based in the U.S. but having a backend office in India. They have about 50% to 60% Tekla Engineers, they do basically structural steel detailing for the U.S. companies and they have front end in New Jersey having sales and project coordinators there and the financial due diligence is almost under completion and the board has approved us to enter a term sheet with them and we are expecting that this deal will be closed in this quarter.

Gaurav Maheshwari: Any details on what kind of revenues they do what is the number that we are looking at?

PV Rao: I cannot disclose because we signed an undisclosed agreement with them.

Gaurav Maheshwari: Okay. But we expect that to close in this quarter itself?

PV Rao: 100%.

Moderator: Thank you. We have next question from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.

Saurabh Patwa: I might be repeating the same question but the reason is that I am not able to get the whole logic of superior. See our gross margins have improved drastically and as per you it was a contribution from Engineering Services for full year of Rs. 5 crores of which Rs. 4 crores was EBITDA. So even if we just exclude adjusted for that still the gross margin improvement is significantly higher. I understood the logic that your realizations would have been very higher in this quarter. But so it would be almost your EBITDA margins were improving by almost 3x, almost 2.5x per tonne.

PV Rao: See normally the Q3 and Q4 will always be higher in terms of revenues and because after rainy season the construction starts and after the Q4 the construction activity will come down because of the rainy season so most of the construction happens in Q4 for any construction company. So if you take the projects that we are handling now are high complexity jobs and all it is incidental that all these projects most of the revenues happened in the quarter four like Kannur International Airport and ITC and UltraTech and most of the jobs we are able to do significant portion in Q4 that is the reason why our EBITDA is more because it is all pipe structures and height of about 20 meters and the middle height is about 45 meters so very high complexity jobs because there are quoted lump sum based not quoted on tonnage basis actually.

Saurabh Patwa: Okay. So does that mean that in the coming quarters in Q2 and Q3 your both volumes as well as margins will come down?

PV Rao: It will sustain. The reason is that we have now started the Baroda unit also, the Baroda unit the volumes will increase because of the Baroda unit and the fixed cost will not increase linearly to that. And other one is that we still have some complex jobs in the pipeline which are high complexity jobs where the rupees per tonne is higher. So we are very significant, we are very confident that the growth will be there in the top-line as well as in the bottom-line compare to the corresponding quarter.

Saurabh Patwa: So in a way you are just trying to say is your realization will be maintained at around these levels if the steel prices remain similar?

PV Rao: Exactly, Yes.

Saurabh Patwa: Your realization would be upward of 1 lakh?

PV Rao: It will be some plus and minus. Some jobs will be higher some jobs will be lower. On average it can be like this only.

Saurabh Patwa: Average it can be like around 1 lakh and your EBITDA per tonne would be around 20,000.

PV Rao: No, our contributions are around 20% to 22%.

Saurabh Patwa: So around 20,000.

PV Rao: Not EBITDA margins, contribution. Yes, just correct, what you are saying is correct but that is including the taxes and all, you have to remove the taxes and duties.

Saurabh Patwa: No, because see as you said that your total volume this quarter was around 12,500 tonnes and your EBITDA is Rs. 277 crore so it comes around 22,000 and realization comes around 1,10,000 so you are going discount as you said the kind of project which we would be handling would be slightly lower. So still it would be around 100,000…

PV Rao: Yes, roughly.

Saurabh Patwa: Okay. So this why have the other expenses have been gaining have increased substantially in this quarter any specific reason related to some project or…

Shrikant Bhakkad: In terms of the other expenses I think it not significantly it was last time Rs. 107 crores now it is Rs. 123 crores predominantly these are job worker model charges that we have, we have paid it higher and erection has been substantially increased which is increasing the top-line also there is a volume also.

Saurabh Patwa: No, other expenses sir, has been almost Rs. 47 crores compare to Rs. 27 crores last year.

Shrikant Bhakkad: I am talking for the full year on a balance sheet to balance sheet basis not on the quarter-to-quarter basis.

Saurabh Patwa: Okay. So it was Rs. 92 crores and yes, okay.

PV Rao: At site fabrication in fact so a lot of job work also involved in that.

Saurabh Patwa: Okay. Then suggest one this just one more question related to the Engineering Services. Sir that you have around 150 engineers over there and our EBITDA margin and you say that we work on like our margins would be almost Rs. 4 crores and revenue of Rs. 5 crores.

PV Rao: They are increasing Engineering Services team size also.

Saurabh Patwa: Yes, so I just wanted to understand like how does the margin in this business so are the employees who are dedicated to this…

PV Rao: It is man hour basis; we charge on man hour basis. Working on dedicated platform of NCI and people are trained, they came here to give the training and people went there for training it is a dedicated presented software platform of NCI we are working on.

Saurabh Patwa: Okay, so software is a NCI and employees are yours and you bill them on a hourly basis?

PV Rao: Hourly basis, Yes.

Moderator: Thank you. Next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Basically, I want to know we are also looking at another facility in Baroda because this is temporary facility so the new facility what we are looking is the same capacity of like 30,000….

PV Rao: Yes, same capacity. Initially to start with, we will be establishing a 30,000 tonnes capacity.

Vikram Suryavanshi: And I think CAPEX earlier we planned was around Rs. 50 crores is that…

PV Rao: That is going down to around Rs. 25 crores to Rs. 30 crores.

Vikram Suryavanshi: Rs. 25 crores to Rs. 30 crores. And how many engineers are in our Vizag facility?

PV Rao: Vizag we have around 26 as of now and we are increasing that to 50 now.

Vikram Suryavanshi: Okay. And I think we have capacity up to 60 I guess sir.

PV Rao: Yes, that is correct.

Vikram Suryavanshi: Okay. And what kind of revenue growth we are looking in engineering business from Rs. 5 crores?

PV Rao: We are expecting 100% growth roughly.

Vikram Suryavanshi: Okay. And basically in this quarter we have seen if you look at compare to third quarter interest rate has gone substantially so is it mainly because of…

Shrikant Bhakkad: Yes, there were two reasons for it, one in terms of the interest cost where there have been raw material that we have taken for the future orders, raw material prices were increasing so, basically we have taken interest so that is reason interest cost is also up and because of MIP so that is the reason the interest cost is higher and also there is also reason that the bank guarantee charges compare to the last year are slightly higher because of the increase in the order book we have to give advance bank guarantees that is the reason and correspondingly advance from customer is also higher, so there are the BG costs which has also resulted in the increase.

Moderator: Thank you. Next question is from the line of Dimant Kothari from Invesco Mutual Fund. Please go ahead.

Dimant Kothari: Sir, can you share the cash flows from operations for this year?

Shrikant Bhakkad: Yes, cash flows from operation is 30 crores approximately.

Dimant Kothari: 30?

Shrikant Bhakkad: Yes, Rs. 31 and positive and then this is predominately on good collection that we have got in the current year and also advance from the customers that we have got so that is the reason we are able to improve the cash flows and operating….

Dimant Kothari: And how much was for the last year?

Shrikant Bhakkad: Last year it was only Rs. 2 crores - Rs. 2.5 crores.

Dimant Kothari: Okay. So the second question was is there any risk of reversal of this high margin, do you have pass through in your contract?

PV Rao: No, there are no pass-through. There are lump sum contracts only and once the job is executed they will pay us and some advance payments are there so there is no question of any reversal on it.

Dimant Kothari: Okay. So if I were to understand, if the steel prices rise then you would have the risk of margin depreciation as well, right?

PV Rao: We have already taken into consideration the steel price increase and the minimum import price and we have procured tonnage worth 20,000 tonnes of material which is sufficient for the backlog we have and the other thing is that we started booking jobs from January onwards with the new raw material prices.

Dimant Kothari: Okay. No, but in general if at all the prices spike up is there a risk of because for this quarter you might be covered but is there any risk because you benefit…

PV Rao: We are almost covered for six months because have started booking the job from January onwards with new raw material prices. There are earlier jobs also which are of high contribution for which we have already blocked the raw material.

Dimant Kothari: Okay, sir. Sir, on the Baroda thing, there is no CAPEX and it is a job work kind of an arrangement the entire thing would be a P&L based thing is there any upfront payment you made or any CAPEX you would have…

PV Rao: There is not CAPEX at all. It is based on tonnage basis per month how much we are producing and rupees per tonne we have to pay.

Dimant Kothari: So it could all be P&L based arrangement.

PV Rao: Yes

Moderator: Thank you. We have next question from the line of Pratik Bora from Individual Investor. Please go ahead.

Pratik Bora: Sir, if you could just brief us on the purpose of pledge of shares and like so the proceeds have been used for a Pennar Engineered Building Systems or for Pennar Industries and do we plan to reduce at a near future how do we plan to tackle it?

Shrikant Bhakkad: They are actually as part of the corporate bank guarantee that we have given before so there was lien of fix deposit and pledge of share. The lien on fix deposit is already gone, we are discussing with the banks to even remove the pledge of share. It will take some time but we are confident that the pledge of shares will also get removed over a period of time based on our balance sheets.

Pratik Bora: Okay. So basically is this for working capital funding?

Shrikant Bhakkad: Yes predominately. We do not have any long-term loans.

Pratik Bora: Right, okay. So I mean as we understand like this year the cash flow from operations has been like Rs. (+30) crores compare to last year of Rs. 2-3 crores. So is it reasonable to assume that in next two quarters or three quarters this pledge of shares will come down drastically or will it be an aggressive assumption?

Shrikant Bhakkad: We will have to go to the bankers in the next renewal**,** the next renewal is only due in January. So I think December January quarter will get this pledge of shares being removed.

Pratik Bora: Being removed completely like 0% or will it be reduced significantly?

Shrikant Bhakkad: No, we are asking to remove because the existing current assets would cover up the entire loan that we have and it is predominately working capital there is no reason that they continue to have the pledge of shares. They are being reducing and if you see there was also a lien of fixed deposits earlier for our loans. So that is completely clam down. The pledge of shares also will come down and we presume by January it should completely get vanished.

Pratik Bora: And sir, is this pledge of shares link to the dividend policy also or I mean are we having some different view over dividend because we want to hold cash coming growth prospects or because of pledge of shares we are unable to dividend out any profits?

Shrikant Bhakkad: There is no restrictions as of the pledge of shares and dividend but this is the answer for the first question and in terms of dividend, we do not pursue that we would have any dividend policy for next one year, as we have to invest this in our long-term growth.

Moderator: Thank you. Next question is from the line of Jihan Bhada from Motilal Oswal. Please go ahead.

Jihan Bhada: Sir, what kind of volume growth are we expecting for FY'17 and FY'18?

PV Rao: Around 20% for FY'16-FY'17.

Jihan Bhada: Okay, fine. And if we talk about complex jobs, so as a percent of our total revenue how much would they be forming today?

PV Rao: Roughly around 35% to 30%.

Jihan Bhada: Okay. And up to what level do you see them rising to over the next three years - four years?

PV Rao: I cannot say for next two-three-four years but it is very difficult to tell on whatever projects are coming up in India but we expect that there is a lot of because we are now proven in this high complex projects and all and the customers will definitely prefer us that is what they are expecting.

Jihan Bhada: So sir, for example, like two years back what was this percentage?

PV Rao: Two years back it was less than 10%.

Jihan Bhada: Okay, fine. And regarding Engineering Services so what is the future for that over the next four years - five years, you said that FY'17 you could double but what going ahead what do you have any percentage of sales in mind on how….

PV Rao: We want to grow because depends on the market, so but we want to grow, I cannot tell you numbers but I would definitely say it will be significant growth.

Jihan Bhada: Okay. And lastly, sir, on the competitive side, if you can throw some light who are your major competitors and what is our strength?

PV Rao: Competitors are Kirby and Entourage and Phoenix, there is the Zamil Steel in Pune, these are the main competitors what we have. And we have our own strengths and we have our own proven capabilities and credentials already recognized by the important customers like L&T, UltraTech, all these customers. We have a repeat customer base of about 45% to 47% on an average.

Moderator: Thank you. Next question is from the line of Jainil Javeri from J&J Holdings. Please go ahead.

Jainil Javeri: I just wanted to know that what are we expecting to spend on this the company that we are buying the services business company.

PV Rao: I cannot tell because we entered into a…

Jainil Javeri: No, is it going to be like are we my question comes around to like we looking to take on debt is it that big or?

PV Rao: No, it is not big.

Jainil Javeri: Okay. So it will be within whatever cash we have.

PV Rao: Yes, much within.

Jainil Javeri: Okay. And also another question, I had was that why cannot we just follow with you know keep going on with the Baroda model, I mean this seems like a good model where we are doing the higher-end work of providing the services and the job work is given out like why do not we just….

PV Rao: The unit which we have taken is they are not willing to give more than one year.

Jainil Javeri: But is there no other people…

PV Rao: But have tried but definitely have good model I agree with you but see the kind of job work charges they get and all it is not sustainable for them. It is good for us but it is not sustainable for them. So the reason why we want to take our own land either in GIDC lands. We are searching for land and in fact I am also going there next week to see the lands in GIDC areas in Dahej and Saykha Industrial Estates and all we have our own unit.

Jainil Javeri: But are there no other people like them who will give for one-one year or?

PV Rao: We tried that, we would love to do because it definitely, question will not be there we would love to do it.

Jainil Javeri: Right, okay. So but even in other parts of the country, this kind of an outsourcing model would not work.

PV Rao: It will work but depends on this area and demand and all suppose if I put an Eastern India there is no use because ultimately I have to bear the transportation cost and all. So here Baroda why it is advantageous is there the raw materials also we can get nearer the Essar Steel is very near. Then the finished goods also, the freight cost we will be savings there.

Jainil Javeri: Okay. And sir, what kind of CAPEX do we expect for the next year and the year after FY17-FY18?

PV Rao: Around roughly around I cannot say now but we have to take the board approval, I would say roughly around Rs. 30 crores.

Jainil Javeri: For each year?

PV Rao: No, one year, first.

Jainil Javeri: And then 2018?

PV Rao: We have not yet finalized as of now.

Moderator: Thank you. Next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: Just a follow-up for Shrikant. Shrikant, to one of the participant's question you mentioned that interest costs have gone up because of the inventory quarter. When we see the inventory as against the inventory your creditors have also gone up significantly so, under the impression that might be inventory days have been funded by creditors so if you can just explain that?

Shrikant Bhakkad: See earlier the inventory that we use to take was for a period of 90 days, now we have started taking for 120 days. These are basically LC acceptances. A lot of the total 150 that you see close to around Rs. 72 crores to Rs. 73 crores will be LC acceptance. So that is the reason interest cost is much higher there. And also there is an advance that we have given for some of this raw material vendors close to around Rs. 15 crores to Rs. 18 crores that is also another reason that the cost is high for us because the minimum import price we wanted to have an inventory already booked and then we have opened the LC and if you see the inventory also there is an almost 10% growth and this will obviously come down as the cash flows and this material comes in and then we start supplying and I think this will definitely come down.

Gaurav Maheshwari: Sir, I understand the inventory part of it that you have increased it because of the commodity pricing but then what explains the increase in the creditor days and also the increase in the interest cost because then the creditor days would have remained at a similar level in that case if you have already paid.

Shrikant Bhakkad: As I explained the LCs, earlier we use to take for the period of 90 days now we are taking the LCs for a period of 120 days. So I think my payable period has increased so earlier within a period of 90 days I use to repay it now I am paying at a period of 120 days that is resulting in increased cost and as well as increase in my creditors.

Moderator: Thank you. Next question is from the line of Manjeet Buwaria from Solidarity India. Please go ahead.

Manjeet Buwaria: The first one, the complex jobs were normally entail an EBIT of 20% to 22%?

PV Rao: I cannot tell you numbers but roughly it is much higher, the contributions for normal jobs are about 18% to 20% but the contributions for the complex jobs are almost 20% to 30%.

Manjeet Buwaria: Sure. But like you mentioned around 35% -40% of your revenues come from complex jobs.

PV Rao: Yes, complex means all are not like that some are not complex, some are medium complex, some are high complex like that it will be there. All are not same rupees per tonne. It will differ from project to project some are very long span building, some are double side building, some are single side building, some are pipes structures, some are hot roll numbers so it depends on the type of project actually.

Manjeet Buwaria: Sir, I was actually trying to understand the ballpark range. My second question was typically on the working capital sir, like from the time you have operated and you know what you look at into the future what percentage of revenues would normally be blocked in working capital on steady state basis?

PV Rao: Normally around two and half months.

Manjeet Buwaria: Two and half months of revenues.

PV Rao: Yes.

Manjeet Buwaria: Okay. Sir, a final question I had was typically the duration of projects would be like six months to nine months?

PV Rao: On average some projects are even two months, some project are even 10 months also so, it depends. Mostly on average you can say three months to four months.

Moderator: Thank you. Next question is from the line of Levin Shah from Value Quest Research. Please go ahead.

Levin Shah: My question pertains to the Engineering Services business, so for nine months you have done revenues of around Rs. 4 crores and for full year you have done around Rs. 5 crores. So can you just explain why there was such a drop in the revenues in the last quarter?

PV Rao: See it depends on their jobs so, it depends on the season there in the U.S. It depends on the order backlog of that company also because if they have more orders then they will have more engineering work to be done.

Levin Shah: Okay. And for full year we had earlier targeted Rs. 7 crores to Rs. 8 crores of revenue, but we have completed the year at Rs. 5 crores so…

PV Rao: Completed at Rs. 5 crores, yes, that is correct.

Levin Shah: So that is because of this thing only the same reason?

PV Rao: December quarter we expected more orders but they could not give more.

Levin Shah: Okay. And next year we are confident of doubling this revenue?

PV Rao: Almost.

Levin Shah: Okay. And sir, on the new plan that we are looking up so, it would be a Greenfield plant in the Northern region…

PV Rao: Greenfield only.

Levin Shah: Yes, so it will be a 30,000 metric tonne plant, right?

PV Rao: That is correct, Yes, that is correct.

Levin Shah: And what is the CAPEX that we are looking, you said Rs. 30 crores.

PV Rao: Roughly around Rs. 30 crores.

Levin Shah: Okay, because earlier we had said that we will be spending around Rs. 50 crores to Rs. 60 crores.

PV Rao: Yes, now-a-days because we are now making a strategy where we can get some equipment from some existing guys who want to sell their equipments and also we want to have that type of sourcing where we can reduce the CAPEX.

Levin Shah: Okay. So basically we will be procuring the machines from them?

PV Rao: Yes, there are units where they want to sell the equipments like that so we are now initially it was planned that Rs. 45 crores to Rs. 50 crores and all but we want to bring that to Rs. 30 now.

Levin Shah: And sir, what initially we had plans at over a period of time, this can be expanded 90,000 metric tonne so that can…

PV Rao: Yes, we are procuring land taking that into consideration only.

Levin Shah: Okay. And sir, on the other expenses this quarter they have gone up sharply though there Mr. Shrikant has explained but I am not able to get that so why other expenses in the quarter have gone up sharply?

PV Rao: Shrikant, can you explain?

Shrikant Bhakkad: Yes, because there are two reasons as I earlier said there is on account of correction expenses that we had higher and last time we have that production where we had zinc consumption so, zinc rate has gone up that is the reason zinc consumption has increased.

PV Rao: Then the raw materials also we have bought it in a very big volume because the minimum import price that is imposed by the government that is reason where we have opened LCs and also the LC charges are and then we got big orders from the customers for which we have submit the advance bank guarantees also. So we have to give the advance payment, we need to submit advance bank guarantee so BG charges also included in that.

Levin Shah: Okay. So basically those are because we have procured a lot of inventory and all in this quarter but going forward that would normalize?

PV Rao: Yes, that is correct.

Levin Shah: Okay. And sir, one last question on the balance sheet our short-term loans and advances have gone up considerably so from Rs. 13 crores to Rs. 54 crores, so can you just explain where has the money gone?

PV Rao: Which one can you…

Levin Shah: Short-term loans and advances they have gone up from Rs. 13 crores to Rs. 54 crores.

PV Rao: Yes, as we have just explained you there we are some advances that we have given for the raw materials there so, to block the raw material for basically there are certain players who in the market do not accept LCs like Tata Steel, SAIL, RINL, Ispat, so for them we have to give some advance and block our materials. So there are some advances that are being given where the money it is increased so, if you see last year it was Rs. 7.5 crores, current year it is Rs. 34 crores of advances that are being given.

Levin Shah: Okay. Excluding that also there is a jump of around let us say Rs. 10 crores around Rs. 10 crores odd more excluding that inventory what you are seeing, advances for inventory excluding that….

PV Rao: Predominately the reason is because of raw material I do not substantially see that there are any other reasons.

Moderator: Thank you. Next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: But this complexity of job, sir is it why is this happening that the percentage of complexity of jobs are increasing, is it that we are winning those orders or it is that in general Indian companies are now you know going…

PV Rao: See some sectors for example you take Pharma sector and then the infrastructure sectors, number of jobs that are there in that sector are increasing. Pharma jobs means it is not a normal building, they have cold rooms and they have a lot of PUF panels involved in that and height of the structure also, on large clear span buildings are there. And in terms of the infrastructure the airports and the multi-storied building. Now-a-days the concept of high rise steel buildings has also started in India. I do not say it is significantly improving but definitely the concepts have started multi-story high rise building. So again these type of jobs and all which are having clear spans and pipe structures we have work for example, you take UltraTech where we are doing 90 meters-95 meters Clear Span Building they are on pipe structures. So pipe means normally the raw material itself is higher pipe raw material cost and the value addition is also higher and the contribution is also higher.

Amish Kanani: Okay. So can you also tell us the order book of that Rs. 424 crores that we have is our complexity job is around the same time 30%-35% or more or less.

PV Rao: Roughly, it will be like that only, yes.

Amish Kanani: Okay. And sir, the perspective pipeline that you mentioned 55,000 tonnes is it how much higher it is say vis-à-vis same time last year, sir?

PV Rao: It is around 20% roughly.

Amish Kanani: It is 20% higher, right?

PV Rao: Yes.

Amish Kanani: That is why you are hoping that this year volume growth would be around…

PV Rao: Yes, because last year for example you take Reliance they have not given any significant growth Reliance Towers the second phase expansion has not been last year and this year they want to go ahead with expansion Phase-II, Reliance Jio will come.

Amish Kanani: Okay. So there that can be done.

PV Rao: Yes.

Amish Kanani: And sir, if you can also give us some sense of engineering R&D team which you know one is for our normal operation, other is for the outsourcing purpose. So I just noted a couple of numbers where you know some where you said the total engineers are 150 but I think 84 are number of people working in probably one where we are exporting and number of engineers in Vizag you are saying it will increase from 25 to 50. So if you can just map our engineering R&D team for our captive India operation and the export operation and how…

PV Rao: We have office in Vizag, we have office in Hyderabad. And in Vizag office currently there are 26 people and we are adding another may be 24 people in the coming one month. And here in Hyderabad office we have roughly around 150 people now, some are working for NCI jobs, the U.S. jobs Engineering Services and around 75 people to 80 people are working for our normal PEB business.

Amish Kanani: Okay. So of the 150, the normal PEB jobs are about half of it and the balance half is for the exports?

PV Rao: Exports, Yes, roughly.

Amish Kanani: Approximate.

Management: And sir, organic exports, organic you said 100% growth is likely in the engineering services business, is it organic growth or you are also counting some export business from the term sheet that you have signed which are probably….

PV Rao: That is different actually, that one, that business we are not counting now because that is different and these are organic growth only.

Amish Kanani: Okay. And sir, when is this likely to conclude the term sheet?

PV Rao: The respecting term sheet will be there maximum one week - two weeks' time in term sheet but the entire transaction will take time.

Amish Kanani: Yes. So is second-half from this year can we count some additional?

PV Rao: I think so…

Amish Kanani: It is possible, okay. And sir, is it possible to share what kind of margins will that business have vis-à-vis the current 75% margin that we have in this export?

PV Rao: See their nature of business is different from what we are doing for NCI as of now we have to check that because they are doing for general fabrication what they are doing and whatever we are doing is on a different dedicated platform what we are doing currently.

Amish Kanani: It is fair to say that it will be much lower than the our regulatory?

PV Rao: It will not be much lower. It will be may be 5% -10% less that is all but it will be almost at a similar line that is all.

Moderator: Thank you. Next question is from the line of Manjeet Buwaria from Solidarity India. Please go ahead.

Manjeet Buwaria: Sir, one was if you have any idea or ballpark range of how big the PEB industry was this year FY16?

PV Rao: Roughly around Rs. 4,500 crores.

Manjeet Buwaria: Yes, so sir, I just wanted to get a sense if I remember right in your prospects in FY'14 the industry was pegged at Rs. 5,500 crores so have we actually de-grown over the last two years?

PV Rao: Actually we have to see sir, there are organized players and there are unorganized players, if you include unorganized players also it is higher definitely.

Manjeet Buwaria: Okay. So this is for the organized players…

PV Rao: Organized players, there are about 12 organized players to 15 organized players are there.

Manjeet Buwaria: And sir, how much would the market share be for the top two players here?

PV Rao: I would say 8%, for top two you mean to say?

Manjeet Buwaria: Yes, for the top two players.

PV Rao: For top it is 20% only.

Manjeet Buwaria: That is 20% each or cumulative?

PV Rao: Total.

Manjeet Buwaria: Total. So around Rs. 900 crores is between the top two players over here, okay.

PV Rao: Yes.

Manjeet Buwaria: Sir, and second question I had was on the price sensitivity in this industry, I am not as well versed with the industry. So if you could just help me understand how competitive is the pricing and what would the difference be between you and the next organized player will be pitching for the same business?

PV Rao: See this is a competitive business, I know that what you are saying is correct but here see this is an engineered solution, it is not a commodity where you can compare one company with the other company. Suppose there is thousand tonnes some job is there which we get with our efficiency and engineering and all some companies may optimize the tonnage and win the job also, it is not in a tonnage business the customers pay, the customers pay on a lump sum basis. So our ability to optimize the tonnage is one of the important factors where we are successful.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

PV Rao: Thank you very much, for organizing this and let us say some good conversations we had and a lot of relevant questions have been asked by the participants and we hope that we have answered them suitably. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.

This document has been edited for readability purpose.