

Date : 26.05.2024  
Place: Hyderabad

<p>BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort Mumbai - 400 001</p>	<p>The National Stock Exchange of India Limited BandrakKurla Complex, Bandra East Mumbai - 400 051</p>
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Dear Sir/Madam,

Sub: Transcript of the Q4 FY24 Results conference call hosted on 23<sup>rd</sup> May, 2024 - Reg.  
BSE Scrip code: 513228 / NSE Symbol: PENIND

Dear Sirs,

Pursuant to Regulation 30 & 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and with reference to our Results conference call intimation dated 15<sup>th</sup> May, 2024, please be informed that the Results conference call for Q4 FY24 was hosted on 23<sup>rd</sup> May, 2024 and the Transcript of the conference call is enclosed for information and record.

The same will be made available on the Company's website viz., [www.pennarindia.com](http://www.pennarindia.com).

Thanking you,

Yours faithfully,

**for Pennar Industries Limited**

**Mirza Mohammed Ali Baig**  
**Company Secretary & Compliance Officer**  
**ACS 29058**

**PENNAR INDUSTRIES LIMITED**

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“Pennar Industries Limited Q4 FY24 Earnings  
Conference Call”

**May 23, 2024**



**MANAGEMENT:** **MR. ADITYA RAO – VICE CHAIRMAN AND MANAGING  
DIRECTOR, PENNAR INDUSTRIES LIMITED  
MR. SHRIKANT BHAKKAD – CHIEF FINANCIAL  
OFFICER, PENNAR INDUSTRIES LIMITED  
MR. MANOJ CHERUKURI – VICE PRESIDENT  
(CORPORATE PLANNING), PENNAR INDUSTRIES  
LIMITED  
MR. K M SUNIL – VICE PRESIDENT (INVESTOR &  
MEDIA RELATIONS), PENNAR INDUSTRIES LIMITED**

**MODERATOR:** **MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL  
(INDIA) PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Pennar Industries Limited Q4 FY '24 Earnings Conference Call hosted by PhillipCapital (India) Limited.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company, as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 “\*” and then “0” on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital.

**Vikram Suryavanshi:** Good morning, and very warm welcome to everyone. Thank you for being on the call of Pennar Industries Limited.

We are happy to have with us the Management of Pennar Industries for a question-and-answer session with the investment community. The Management is represented by Mr. Aditya Rao – Vice Chairman and Managing Director; Mr. Shrikant Bhakkad – Chief Financial Officer; Mr. Manoj – Vice President (Corporate Planning); and Mr. K. M. Sunil – Vice President (Investor and Media Relation).

Before we start with question-and-answer session, we will have “Opening Comments” from the management.

Now I hand over call to Mr. Aditya for opening comments. Over to you, sir.

**Aditya Rao:** Thank you to all our stakeholders on behalf of Pennar Industries. My sincere thanks and appreciation to you for joining today's Investor Conference Call. This will cover the 4th Quarter and the Fiscal Year 2024. I value your participation, and thank you for your continued support. Today, we will commence with an overview of our performance which will include insights into our revenue, PBT, working capital utilization and our strategic growth initiatives. Post that, Shrikant, our CFO, will provide a comprehensive analysis of our financial outcomes. And following this, we will welcome questions from all of you.

During the 4th Quarter of Fiscal Year 2024, Pennar Industries had net sales of Rs. 822.8 crores. and a PBT of Rs. 39.17 crores. This reflects a revenue increase of about 23% and a PBT growth of about 28% and a cash profit of Rs. 44.8 crores.

For the fiscal year ending March 2024, Pennar Industries had net sales of Rs. 3,130 crores, which was the highest ever and a PBT of Rs. 131.41 crores on, which is also our highest ever, and this represented a growth rate of 33.5% in our PBT. So, this performance aligns well with

our projections. It is based fundamentally on our optimism of continued growth in revenue, profit and margins.

And as we realign our business to focus on higher-margin revenue streams where we have low market share and which have large addressable markets, we are quite confident that this positions us well for continued growth in revenue and PBT, particularly our pre-engineered building business, our U.S. Metal Buildings Business called Ascent, hydraulics, boilers and engineering services BUs are all well positioned to grow market share and consequently drive up our revenue and profitability.

Let me now move to profitability metrics from a margin point of view:

Our PBT margin for the 4th Quarter stood at 4.76%. It is a narrative we have provided in the last few quarters that we will continue to see margin expansions, primarily driven by a shift of revenue from lower margin base to a higher margin base and that is effectively what is playing out. And so we are confident that well over the next few quarters, you will continue to see these margins move up.

Over the longer term, of course, our goal is to reach much higher levels of profitability. As I mentioned, this improvement is attributed primarily to our evolving revenue composition. This favors high-margin businesses and this trend will continue. On a working capital management front, as of March 31st, our working capital days was 76 days, lower than 77 days, which we had in the previous quarter. Our goal was to reach 75 days, and we actually ended up somewhere in between 75 and 76 days. Efforts are underway to optimize our current assets further.

And the sectors we're transitioning away from, unfortunately, it takes time for us to collect that current asset back, and that is leading to an increase in working capital. But in the long term, we believe further consistent improvements are very, very possible. And over the next few quarters, we think 72 days is what we would like to target from a working capital perspective.

Let me now move to growth:

For the upcoming fiscal year, we have, as I had mentioned last time, there are several critical growth vectors for us. PEB, both in India and in the U.S. will grow on the back of our new Raebareli plant having been commissioned. We're very happy to note that other order books for the plant also have grown substantially, and we are very eager to see that revenue come in over Q1 and Q2. Peak revenue for the capacity that we have installed will come in, in the second quarter, though there will be revenue in the first quarter as well.

In the U.S., CAPEX is underway, and our order backlogs have also grown quite well. So, we expect to see substantial double-digit growth in revenue and profitability in this financial year from our U.S. business as well. Hydraulics and process equipment also are sitting on higher

than ever order books and Engineering Services continues to scale with the addition of business development teams in the U.S. and in Europe as well. So, expansion in these areas is expected to again significantly drive revenue. Notably, each vertical presents a very big substantial market opportunity for us.

And our current market penetration in each of these sectors is quite low. I am talking low single-digit percentages. So, our growing order backlog in these areas bolster our confidence that we have a sustainable revenue growth future ahead of us. PEB India, as I mentioned, and we have a press note out as well, is currently at Rs. 770 crores, it's the highest ever. Our U.S. BU also is at \$44 million, among the highest months that we have had from an order booking perspective. And hydraulics and process equipment are also at their peaks. So, this will drive growth over the course of this year.

This concludes my remarks and overview of our financial performance, covering revenue and profitability. Our margins, working capital management and the key growth vectors that we have ahead of us for this year and for the next few years.

I now invite Shrikant to further discuss and elaborate on this financial analysis. Thank you.

**Shrikant Bhakkad:**

Thanks, Aditya. Welcome to the shareholders and investors on the 4<sup>th</sup> and Annual Financial Year '24 Earnings Call.

The key metrics:

Revenue has increased by Rs. 822.8 crores, up by 23% from Rs. 668.4 crores. There has been improvement in our gross margins. EBITDA has reached 10.01%, PBT to Rs. 39.2 crores, up by 27.9%. And in terms of percentage, it is at 4.76%. The PAT is at Rs. 28.81 crores at 3.5%. We have recorded the highest ever revenue this fiscal year Rs. 3,130.57 crores and highest ever PBT of Rs. 131.42 crores.

Moving into the details:

Revenue with our continued focus to improve the margins and cut down the sales with low-margin businesses, which we had PV solar, water EPC, solar MMS, you see the increase in the profitability of the business. Revenue has scaled up, but not in terms of the value. But in terms of metric tons, this has increased substantially. But revenue has been relatively low due to the lower raw material prices that we have in our subsidiaries. The diversified engineering revenue for FY '24 is at Rs. 1,641 crores compared to Rs. 1,511 crores, up by 8%. And similarly, for our custom design building solutions, it is up by 5.24%.

Moving on further, other income includes the earnings that we have from deposits, income from mutual funds, incentives, exchange fluctuation and large amount is due to the collection of our old receivables. Salaries have increased, in fact, due to onetime bonuses, which we had last quarter at one of our subsidiaries. We expect the salaries to stay relatively at this level or

increase slightly from here. We would also like to inform that we are hiring new resources for our growth business at unit in India and our engineering services.

I would like to give a detail on terms of finance cost:

When you are growing and investing for growth, you tend to increase the finance cost. And this is what you see in terms of finance costs. Interest cost is high due to the increase in terms of interest rate from last year same time.

The second reason is due to the stuck businesses, which we are cutting down in terms of low margin. The impact due to interest rate is 73 basis points and due to higher working capital close to Rs. 142 crores. And the term loans that we have borrowed for our growth capital. A combination of an increase in interest rate, an increase in our working capital, and increase in the term loan is the result of the increase in the finance cost.

This increase in the finance cost we are relatively aware. And overall, you hold us accountable in terms of percentage of net sales. This is slightly higher. We expect this to come down by the end of the year. Relatively, there will be a slight increase in the next 2 quarters because of the term loan. Once we do the capitalization, this will add up, but we expect that to bifurcate in between term loans and working capital. And working capital, we are monitoring, and we are on our path to reduce the interest cost. So, this is in line with our plan, and there is no high surprise.

But as a percentage, these numbers have relatively gone up. Profit in our subsidiaries remains flat for the reasons explained above, due to increase in the raw material prices. Just taking you through the balance sheet numbers. Change in assets, predominantly exceeded Rs. 199 crores, inventories Rs. 42 crores and debtors Rs. 112 crores. Cash and cash equivalents have reduced by Rs. 30 crores.

Taking you through the details of CWIP:

This is due to the capitalization that we are carrying out for our growth businesses in India and U.S. for our PV business, for our hydraulics business and for our Process Equipment business. Inventories standalone has increased by Rs. 57 crores and debtors have increased by Rs. 112 crores. These are in line with the plan with our growth in revenue.

Debtors:

They are higher because of the debtors that we have in our businesses where we are exiting. Cash and cash equivalents have been reduced at our subsidiary by Rs. 35.5 crores and this is due to we are deploying the funds for our growth. Investment in standalone is increased by Rs. 63 crores. This is on account of the loan that we have converted into equity at our subsidiaries, and this is a one-time change.

Moving to the long-term liabilities:

The long-term liabilities, increase in borrowing cost by Rs. 36.36 crores, and this is for our growth businesses. The increase in trade payables is close to Rs. 200 crores. This comprises of increase in LC acceptances, which is close to Rs. 100 crores and other trade payables, Rs. 69 crores. Relatively, this is what we have planned, and our target is to reduce the LC acceptances over a period.

Other current liabilities:

The reduction is due to the advances from the customers at India and as well as the U.S. Overall, the other equity has increased by Rs. 57 crores and subsidiaries, Rs. 41 crores. Order book of PEB is at Rs. 768 crores, relatively increased based on the orders that we have booked, railway at Rs. 120 crores and Ascent at \$44 million.

While the detailed presentation has been given to the investors, I leave the questions from the investors now and hand over the call to the moderator.

**Moderator:** Thank you very much. we will now begin the question-and-answer session. The first question is from the line of Mahesh Atal from Atal & Association. Please go ahead.

**Mahesh Atal:** So, first, my question is, what is our addressable market coming through railways? I see that railways order book is Rs. 120 crores and how much of Rs. 3,000-odd crores that we have done last year has come from railways? So, first is an addressable market for us and the total revenue from railway in the last financial year. This is my first question.

**Aditya Rao:** The addressable market for the products that we make for the railways, which is primarily coach components and wagon components and subsystems is about Rs. 2,000 crores. Our revenue last year in that vertical was about Rs. 250 crores. We expect some growth on that this year. More importantly, our addressable market itself has also grown, but railways is not one of the major growth verticals for the Company. But as of right now, those are the broad numbers, addressable market and the revenue last year.

**Mahesh Atal:** Fair enough. And coming to our debt actually in our books, so it's somewhere around Rs. 780 crores. So, as Mr. Shrikant has just communicated that we could expect because new capacities have come on stream, I think we have been needing additional working capital for that. So, when he says that we could see some reduction in that by the end of this year, could you please quantify that how much it could be by the end of the year?

**Shrikant Bhakkad:** In terms of working capital, you have to compare the working capital as a percentage of the net sales. Our stated goal is that we will be at around 3.5% as a percentage of net sales. So, we will be at around 3.5% of net sales. Does that answer your question?

**Mahesh Atal:** No. See, it's about like once your new capacity, as they come on stream, and you'll be needing hugely for that capacity also. So, do you really think that this will come down or this might be at the same levels going ahead because the revenues might also go up, right?

**Shrikant Bhakkad:** So, to answer your questions, I'll explain you in 2 parts, in terms of value and in terms of percentage. In terms of value, the loan will go up and as our revenue also comes in, as a percentage of revenue to the finance cost, the percentage will be at 3.5%. So, total finance cost as a percentage of revenue is what I am trying to explain. But working capital will definitely grow as we increase the revenue.

**Aditya Rao:** I think in the narrative we provided, there are some current assets we have right now in businesses which we have deprioritized. As that money comes in, there will be a reduction in working capital because of that. But because this is a revenue growth year, I suggest the bifurcation of working capital interest be taken, the way Shrikant has outlined it the interest cost being a certain percentage of revenue. That's what we use in our model.

And as revenue grows, working capital will go up, but there will be moderation in the current assets that we have, which are taking longer for us to liquidate as they're deprioritized from a BU perspective. We've been pretty disciplined in understanding how we can get this cash flow in. But over the next few quarters, you will see minus from that and plus from growth. So, overall, we will maintain it at 3.5% from an interest cost perspective.

**Mahesh Atal:** Fair enough. Sir, if I remember last few quarters back, you said that there will be a multifold increase in the business that comes from the U.S. side. So, do you see kind of green shoots over there? How is the market, if you can please elaborate on that? How do you see that in the next financial year or maybe the next couple of years? Because if you can just please elaborate on that market as such.

**Aditya Rao:** So, base philosophy, when we look at markets is, we look at our addressable market and our market share, and we use that to determine how much we can grow. So, for our products in the U.S. and services, we are currently at a 2% to 3% market share. So, there's a lot of potential for us to grow. Consequently, we are adding a lot of capacity in the U.S. in terms of manpower, sales presence, DMs and also production capacity. This will create over the next few quarters or the next few years, our U.S. business is we probably expect it to be our fastest-growing business. And the margins there are obviously also a lot higher than our India business. So, we intend to focus on U.S. revenue and profitability in addition to our India businesses.

**Moderator:** The next question is from the line of Rehan from Equitree Capital. Please go ahead.

**Rehan Laljee:** I have a couple of questions related to the new plant. I wanted to understand what kind of ballpark peak revenue number you're expecting from the new capacity coming in the first half of this year.



**Aditya Rao:** Are you referring to the pre-engineered building plant because we commissioned a new pre-engineered building plant, a boiler plant and several expansions.

**Rehan Laljee:** Not the PEB.

**Aditya Rao:** I am sorry, could you say that again?

**Rehan Laljee:** Not the PEB plant. I am talking about the boiler plant.

**Aditya Rao:** The boiler plants. Okay. The boiler plant will double revenue this year. We already have the order book to back that up and revenue right now is already at a 20% higher rate than what it was for the average of last year. So, we referred it as boilers and process equipment now, and we are quite happy about the growth that's being and the profitability margins there are higher than the average for the Company. So, it's good in 2 ways. One, it drives revenue and two, it drives margin expansion.

**Rehan Laljee:** What kind of margins do you get from that business segment?

**Aditya Rao:** Right now, it's not up to industry norms. It's profitable, but we are looking at the 5% to 7% on a PBT percentage rate. But if you look at our competitors in this business, typically PBTs tend to be around 10%. So, our stated goal is to drive after that over the next few years. But it obviously won't decline from where it is right now.

**Rehan Laljee:** Second would be, since we're in multiple business segments and you're looking at the high growth opportunities, how does Pennar get or gain more market share? Like what are the active measures in your businesses because this is so widespread, how do you gain market share? What are the processes that you use to gain market share?

**Aditya Rao:** So, you can see this as a good thing or a bad thing depending on perspective. But as I said, our base plan is there are 5 specific verticals we want to grow and grow aggressively. And in those 5 verticals, our market share is very, very low. I mean there's nothing that crosses 10%, and most are quite frankly, below 5%.

So, we need to focus on fewer businesses, and we need to reach scale and get out of these subscale performance in those business. At the same time, we support the, shall we say, deprioritize BUs and make sure that their revenue is held stable, that profit is stable, we certainly don't want to see a year or 2 of decline revenue. So, those will stay where they are.

But these are the high-growth BUs since the market share is low, if you build capacity and you get an order book, then it becomes mechanical. It would be hard for me to see our order backlogs go up and our capacity goes up in these businesses, whether it's pre-engineered buildings India, Ascent pre-engineered buildings U.S., hydraulics, process equipment, it is very hard for me to see how our order backlogs can continue to grow as they are.

But capacity continues to grow, and we don't see good growth and profitability increase. So, that's the base model that we are using. And it's quite frankly, worked very well for us. So, I think low market share, expanding that market share by expanding capacity is the way we're looking at those businesses.

**Rehan Laljee:** So, just wanted to understand your focus on any form of government businesses is reducing like railways, et cetera. So, would that be beneficial to your non-fund-based limits in any format?

**Aditya Rao:** We do not undertake any government revenue. I mean, with the exception of railways, which is also frankly a PSU. Direct to government is near 0% of our revenue stream right now. So, the vast majority of what we do is private sector. PSUs probably comprise about 5% right now. But yes, just the railway business. There's no other government business that we have.

**Rehan Laljee:** No, because I wanted to understand how would Pennar be able to restructure the non-fund-based limit in the new year?

**Aditya Rao:** I am sorry, I didn't get the question. Would Pennar be able to --

**Rehan Laljee:** No, I wanted to understand how would Pennar be able to restructure their non-fund-based limits in the new year?

**Aditya Rao:** Non-fund-based, I am sorry?

**Rehan Laljee:** Non-fund-based limits.

**Aditya Rao:** So, non-fund-based limits such as LCs and BGs, are part and parcel of several of our project businesses. For pre-engineered Buildings in India, there are advanced bank guarantees to be given, LCs for raw material performance bank guarantees. We avoid CPBGs, but we are quite disciplined in the use of these, but I can tell you that there's a lot of improvement that needs to be made, and we are making it. So, we are working with a lot of external consultants and there's obviously been substantial improvements.

If you look at our working capital cycle, it used to be 90 days, 80 days, now we are at 76 days. We're quite sure this year, we get into low 70s over the next couple of quarters. So, this consistent improvements that can be made. But the dominant debt instrument we have, I mean, the vast majority of our debt is noncash. So, there is no getting around that, unfortunately. It's a design. It's not a bug. It's a feature. So, we will have to make peace with that. But at the same time, make sure that we are very disciplined in terms of how we are using these working capital limits and make sure also that capital efficiency also remains high. Our ROCE right now is about 20%.

This is the first time it gotten above 20%, and we are happy to note that from what we see at least in the way forward that ROCE will continue to increase further. Our return on equity also has crossed 10% for the first time. And even that will see consistent improvements.

**Moderator:** The next question is from the line of Venkata Subramanian Raman from Organic Capital. Please go ahead. Please go ahead.

**Venkata Subramanian:** Congratulations on walking the path on the restructuring exercise, taking out from businesses that you don't want to focus much on. Now that we have actually identified these 5 key focus verticals that you want to be on, can you possibly paint a larger picture in terms of what we can see in terms of growth on each one of them over the next 2 years to 5 years, that will be very useful.

**Aditya Rao:** So, we have undertaken a large transformation exercise over the last couple of quarters. We've detailed out for all of these 5 BUs growth plans for the next 5 years. We mapped out markets, mapped out the assets we need and we're hard at work in the implementation phase. So, I would not be able to give guidance on what our revenue this year can be.

But I have absolutely no hesitance in stating that we are extremely confident of continuous quarter-on-quarter revenue growth, profit growth and capital efficiency improvements. So, that, I think, is baked in fundamentally into our plan, and we will make sure that every quarter, we only improve, and we don't fall back on some of these things. Yes, there may be some amount of cyclicity inherent in from a quarter-to-quarter movement. I mean, Q1 for the U.S. or our Q4 or the U.S. Q1 tends to be a little muted in the U.S., but taken as a whole, our growth plan with these 5 business verticals that we are prioritizing and that we are deploying capital into. The markets are so massive that each one of them can be larger than the current size of Pennar.

So, if you look at pre-engineered buildings, for example, the largest players in the U.S. and even the moderate players in the U.S. are \$300 million, \$400 million, which exceeds the entirety of Pennar right now. So, that's one of our business verticals. Even PEB India itself, to our market knowledge, indicates that they at Rs. 2,500 crores. For the process equipment, the largest players are Rs. 6,000 crores, and there's several Rs. 4,000 crore, Rs. 5,000 crore players.

So, growth will never be a challenge for us., if we stick to these 5 verticals and build scale in them. I think the mistake we made historically is that we chase too many opportunities, and we build subscale businesses. We did okay. We were profitable, but we were not able to generate sustained growth in those business verticals. I think do less and do better in them is our current motto. So, I can certainly say revenue and profit growth is something that we will deliver quarter-on-quarter.

**Venkata Subramanian:** Now we all understand that giving quarterly or even yearly numbers can be a little difficult. But can you paint a picture for the next 3 to 5 years? You had a larger vision of becoming a billion-dollar Company, meaning when do you think we can get there?

**Aditya Rao:** So, our ambition at Pennar now is much higher than the billion dollars, I mean, that would be about Rs. 8,300 crores from a gross sales point of view, but let's take net sales. So, net sales, Rs. 3,000 crores we are not aiming at Rs. 8,000 crores, we are looking at a substantially larger number than that. So, we have a 5-year plan to, shall we say, make most of our businesses, the current size of the entirety of our business. So, that should lead us to a number much higher. So, give us 5 years, and I think we will be able to exceed substantially that billion-dollar number. I do not believe that will be a challenge.

**Venkata Subramanian:** That's very encouraging. On the PEB side, the current growth, are you a little disappointed where there are some challenges? And is this year panning out a little differently?

**Aditya Rao:** I think there's definitely a case to be made that there was a lost opportunity on the PEB side. But now there's good growth. Our goal is to be #2 in India in the PEB space this year. I am near certain we will achieve that. Our order books are strong with the new capacity that's coming online, it opens up the north market for us. So, yes, as I have said, revenue growth won't be an issue. That holds doubly true for our pre-engineered building business in India. I do not see any impediment to our ability to strongly grow this vertical. So, what's in the past is in the past. But over the next few quarters, we will absolutely report strong growth in our pre-engineered building business.

**Moderator:** The next question is from the line of Madhur Rathi from Counter Cyclical PMS. Please go ahead.

**Madhur Rathi:** I wanted to understand when I look on like the quarterly operating profit, they have declined from around 10% to 8%, excluding the other income. So, why is this? Because we are moving towards high-margin business. So, why is this the case?

**Aditya Rao:** I think the attribution of income. Sorry. Are you done with your question?

**Madhur Rathi:** Yes, sir. Please go ahead.

**Aditya Rao:** I think your question effectively was a decline in to remove other income margins on that front. I think the attribution of it is something that we need to be watchful for. I would look at the entirety of the PBT margin because that's what we map out. There's a lot captured in other income that's important, it concerns for increases, it concerns also our other income, in fact it's coming from our other investments. So, overall picture is what is necessary in order for us to look at margin. But Shrikant, if you have more color on this.

**Shrikant Bhakkad:** Yes. Overall gross profit margins have been at 37.8% versus 38.1%. If you compare standalone, there has been an improvement in the margins by 150 basis points. Those are,

again, as we have explained from the new businesses, Subsidiary margins have been lower when compared to last year. This is because, again, as a percentage, the revenue per metric ton has gone down, and effectively, their margins have gone down. So, standalone businesses, there has been substantial improvement in terms of the margins. There is a decrease in subsidiary margins. And when you calculate either the individual margins or the subsidiary margins, do take into account all the relative costs of that, including the other income, a certain portion gets recorded there.

**Aditya Rao:** So, to clarify that a little bit more, specifically in our U.S. business, because of the raw materials fall there, the margin, there has been a decline by about a few basis points. But this is cyclical. It is not indicative of any long-term movement. Markets in the U.S. are remarkably stable and large. So, it can be attributable to a quarterly movement. Overall, the picture is quarter-on-quarter, year-on-year, you will see operating margins move up. And that ultimately falls down to the bottom line.

**Madhur Rathi:** Sir, my next question would be just capital within the progress of Rs. 218 crores, will be mostly towards our U.S. and the Ascent PEB and the boiler plant, right?

**Aditya Rao:** So, we have commissioned and commissioning plants and plant expansions in Hyderabad, in Raebareli, in Trichy, also in France, but that is a small number, it's a few crores and also in the U.S. So, all of these are growth verticals. So, we are deployed in that. And once we fully commission those capacities, obviously, there's a dramatic impact on our revenue and profitability.

**Madhur Rathi:** So, sir, what is the time line to commission the US PEB building that will be doubling our capacity?

**Aditya Rao:** It will happen in this year. Unfortunately, one of the things in the U.S. that we're watchful for is it takes a substantial amount of time for capacity improvements to be brought in, especially even ancillary equipment such as transformers, the lead time tends to be about 18 months. Now these are obviously investments we have made already, and I am not saying it'll take 18 months from now, but over the course of this financial year, you will see additional capacity strongly get commissioned in the U.S. But it is not Q1 or Q2.

**Madhur Rathi:** Sir, just a last question just clarifying on the previous question. Sir, the 3.5% the finance cost as a percentage of revenue, so will this decline as the Rs. 142 crore working capital that have been stuck in the low margin business if that's liquidated?

**Aditya Rao:** I think Shrikant has detailed this out. So, effectively you will see our overall interest cost and the overall debt for the Company, you will see movements focusing or going in 2 directions. One, there will be a reduction as our stuck current assets. I won't call them stuck, I would call them slow, I guess, we have mapped it out and we are quite confident that they come in, but

they'll come in over the next few months. As that comes in, our working capital will decrease. The vast majority of our debt, as I said, is working capital.

But as revenue grows, working capital will continue to rise up after that. So, if you are going to see revenue growth, you're going to see working capital increases. But the controlling factor for that is that our overall interest and of course, our overall debt should be a function of our revenue in that case. So, the number that we have mapped out, which makes sense for the industries we have presented is about 3.5% and we will be at that. I think Shrikant and I are both quite confident that we will meet and achieve that number this year.

**Moderator:** The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

**Deepak Poddar:** First, I just wanted to understand, you have mentioned about 5% to 7% of PBT margin and 10% which peers get in next few years, right? So, do we have any time line to it? I mean, just for the medium term, what sort of time line we can look at for 7% PBT and 5% PAT margin?

**Aditya Rao:** So, the last few calls, I think I should not have, but I think I had said that 5% would be achieved. I think for the last quarter, we were at 4.76%. So, yes, I think we have come from 1%, 1.5% to 4.76%. So, I think in a very broad sense, margin expansion, we know exactly where it's going to come from. So, 5% shouldn't take very long, obviously.

**Deepak Poddar:** The 5% PAT margin that we have.

**Aditya Rao:** Yes. So, 5% PAT margin. Now here we have to be a little careful because while India is easy to calculate because 5% PAT margin effectively becomes a PBT margin of about 6.5%, 7%. In the U.S., it's a little different. U.S. income tax is not just a federal income tax. It also depends on each state, not indirect taxes, direct taxes in the U.S. vary from state to state. And as we increase our footprint in the U.S. and go away from the south and we approach the Midwest and others, we are in fact, doubling our addressable market in the U.S. in this year. There will be a little bit of hysteresis. In the last year itself, if you look at our PBT versus PAT, our PAT would have been actually substantially higher, but our tax rate in the U.S. went up from 22% to 25%.

So, that is another thing we have to watch out for. But broadly, it's not going to be much higher than that. But I think blended average, if you take also at 23%, 24%. And if you look at the U.S. contributing going forward also around 30% of our revenue and profitability, I think it is okay for us to say that the PAT margin reaching 5% effectively means that we get to 6.5%, 7% in terms of PBT. And that should happen over the course of this year or next year. I think that we are quite confident.

**Deepak Poddar:** FY '25 or FY '26.

**Aditya Rao:** 100%.

**Deepak Poddar:** And my second question revolves around, I mean, a few minutes back, you mentioned that our ambition is to grow on a quarter-on-quarter basis, both on the revenue front as well as on the profit growth. Now this quarter, I think we had some other income, which was one-off, right, a Rs. 16 crores kind of other income. So, how should we look at it? I mean quarter-on-quarter, we should adjust this other income or on this reported number, we are expecting quarter-on-quarter improvement in revenue and profit.

**Aditya Rao:** Look at both, please, because other income may or may not come in. But even with or without other income, our revenue has to grow. That's what we are mapping out.

**Deepak Poddar:** And what about the profit?

**Aditya Rao:** The same sir. In profit, I would say you take the net other income number because we do price in foreign exchange fluctuations into our model. We do have certain investments, which deliver, give some relief. It's not an extremely material number, but when we map out our profit targets, we look at the bottom line, which we report to you. So, I would suggest you take that.

**Deepak Poddar:** So, on a reported number, we are expecting quarter-on-quarter improvement, right?

**Aditya Rao:** Yes, correct, sir, yes.

**Moderator:** The next question is from the line of Ashish Ajit Golechha from Growth Sphere Ventures LLP. Please go ahead.

**Ashish Golechha:** First of all, congratulations for fabulous numbers and walking the talk. Sir, 2 questions. The first question is, if you could give us clarity on the road map, which BCG is preparing for you? Where are we at the current juncture? And if you could throw some light on basically, the BCG is focusing on the strategy road map for Pennar. And other thing, if you could give us a picture of what CAPEX you have lined up for current year, next year and after that because that will also help us to understand that what capacity expansion plans we have in place.

**Aditya Rao:** It is true that we are working with BCG on our growth, on our strategy. It covers not just our growth, it also covers org structure, it covers our technology footprint. So, it's a holistic exercise, and -- there are also others that we are working on improvement. Specifically, our working capital is something that we get a lot of external help on in terms of how to revise our SOPs and everything. So, it would be hard for me to pin down one aspect and say that we are working on this.

But overall, the idea is strategic transformation, and so it's a very holistic exercise. We are happy with the work that's been done. I think from the narrative that I have provided that we are going to focus on some businesses. We are going to grow those businesses. We're going to make sure that results in revenue and profit growth. And we're going to make sure that we are



capital efficient and our capital efficiency numbers go up. On those metrics, broadly is the deliverable that we expect from the work that we're doing inside the Company.

The CAPEX number for this financial year, I will have to come back to you because there is work underway. As I have said, this exercise we are conducting, and the appetite is there, and we are very ambitious, but we also have to temper that a little bit with risk management. So, while we have an internal number, I am not entirely comfortable sharing that with you right now. But by next quarter, we will have an exact number of exactly what our capacity expansion growth plans for this financial year and for next financial year will be, and we will get you that clarity. But as of right now, I will not be able to give you a number.

**Moderator:** The next question is from the line of Piyush from SOIC. Please go ahead.

**Piyush:** Sir, what could be the peak revenues that we could generate from the current capital work in progress that you see on the balance sheet?

**Aditya Rao:** The peak revenue, I don't want to go 100% capacity utilization, assuming 70%, 80% on an OE basis would probably indicate a number with our current asset base would probably be about Rs. 5,000-plus crores.

**Piyush:** So, basically, Rs. 2,000 crores from the tackle work in progress that we see on the balance sheet right now?

**Aditya Rao:** Yes.

**Moderator:** The next question is from the line of Mithun from MJ Investment. Please go ahead.

**Mithun Soni:** Congrats on a good set of numbers. I just had a couple of questions. So, the PEB business, both in India and U.S. being one of our large businesses now, which is 2 out of the 5, which we are going to focus. So, what would be the GTM of PEB business? What is the go-to-market strategy? How do you do it in India? And obviously, U.S. might be a little different. So, can you throw some color about it?

**Aditya Rao:** Yes. So, there are differences though the product and the design and the thing is more or less the same. It's a little more nuance in the U.S. There are differences in the business model as well. But let me not try to overcomplicate. To answer your question, the gross margins for our pre-engineered building business in India, margin after variable is about 18%. The market leaders get 28%, 30%. So, we are hard at work trying to get that up. In the U.S., we get a substantially larger number, it's closer to 30%. And it can move higher than that as well.

**Mithun Soni:** Yes. But my question was more on the marketing side. So, how was the go-to market happening in the sense, which channels do you sell through, or do you directly go through contractors? So, how does the sales happen on the pre-engineered building space specifically on the U.S.?



**Aditya Rao:** Sorry, I misunderstood. I thought you said gross margin, not GTM, but it's a very good question. It is completely different. It is the main difference between the U.S. and Indian PEB models. In the U.S., the business is completely people-driven and it is dependent on what we call DMs. So, you want to grow your order book in the U.S., you have to add DMs, DMs specific to regions, DMs specific to certain large contractors. In India, PEB companies tend to be larger than most companies they service. In the U.S., the customers for metal building companies are much larger than the metal building companies.

And even though the metal building companies themselves can be \$400 million, \$500 million, even \$1 billion plus. So, in the U.S., it's driven by a people-driven DM, sales-driven pipeline where you would effectively have to depend on them to pull volume in and you even quite frankly, have to make sure that you are structured in a way that you're constantly adding, training up your DMs, training up the erection staff, erection people and the builders and the contractors. In India, it's different. It's driven by 2 revenue streams, either EPC or the owner of the building.

So, the process and industry effectively is the largest one. Warehousing, cement plants, steel parts, power plants, fertilizer plant. Those tend to be the majority or the vast majority of consumption of pre-engineered buildings, completely different in the U.S. where nonresidential construction is a driver. So, it's very different, the strategies we have in India and the U.S. India is driven by having sales teams, which you have in-house and then catering to a large number of companies and there being a certain hit rate.

And in the U.S., it's more a few number of DMs them having their complementary relationships with GCs and then pulling that revenue in. The advantage is the U.S. model is a little superior because you get a lot of reliability in your revenue and order backlog, and you don't need a very high order backlog to push revenue.

**Mithun Soni:** So, you have substantial manpower deployed in U.S. for this? How do you acquire the DMs? I mean I am still not able to understand the concept, if you can elaborate a little bit more on that.

**Aditya Rao:** I won't name names, but we are constantly adding DMs. Our total manpower in the U.S. right now is over 200 plus. The factory staff is 169 plus DMs, everyone and others combined engineering staff, all combined goes well over 200. But for us to grow, as I said, we are continually adding new DMs. So, we are well staffed for our current revenue and operations, but we are adding a lot more DMs. In fact, a good portion of our growth planning is choosing the right DMs. It's very important. And our CEO in the U.S. Kimbell is someone who spent his life in the industry, and he's single-handedly been responsible for building Cornerstone into a very large brand, into a very large business. So, I am sure that he will be able to grow Ascent as well.

**Mithun Soni:** Okay. And one follow-up on this. So, this DMs would be on our rolls? Or are they commission based? How would the dynamics work in that scenario?

**Aditya Rao:** They are on our rolls, but they also will be commission percentage and orders booked, yes. So, that's priced into the gross margin, and it's within industry rate for it, and post that commission is what I mean, I said, it's 30% plus, it's post that commission.

**Moderator:** The next question is from the line of Aditya Thakur from 5G Capital. Please go ahead.

**Aditya Thakur:** Congratulations on good set of numbers, sir. Sir, we will have incremental revenue from the new CAPEX as well as loss of revenue from discontinuing operations, keeping both in, will we be able to achieve double-digit revenue growth for FY '25 and FY '26.

**Aditya Rao:** We will not give revenue. But broadly, yes, that's our goal. Yes. We believe double-digit revenue growth is absolutely achievable. Double-digit profit growth is absolutely achievable. Considering the fact that we will be focusing on growing the 5 verticals, there will be revenue bleed in the other verticals.

**Moderator:** The next question is from the line of Dilip Kumar Sahu, an Individual Investor. Please go ahead.

**Dilip Kumar Sahu:** Aditya, my question was regarding the rejig in our portfolio. In the standalone business, we have grown substantially this quarter sequentially. So, is it to assume that we have done with all the rejig of portfolio and the base for the desirable goods business is the current quarter and you can still expect growth from here?

**Aditya Rao:** Not really, sir. We have a lot of work ahead of us. Right now, the prioritized BUs, in the standalone entity I am talking about, the prioritized BUs are not, I think, would be about 50%, 55% of our revenue. So, there's a lot of work to be done for us to have them grow further as well, which is a good thing, which means that there's only more growth that is possible. But you should not take the last quarter as indicative of our revenue profile. I think there's still substantial revenue coming in from the deprioritized BUs.

**Dilip Kumar Sahu:** So, the profitability of the business is going to vary. Like as we cut down more of these low-end businesses, our profitability matrices will change as we grow, right? That's the right assumption to say.

**Aditya Rao:** Absolutely. I think the stated plan is as we add more revenue, we may lose some revenue in the deprioritized, but as we add more revenue, we will be very careful with that. We're going to ensure no shocks in terms of revenue or anything like that. But effectively, think of this as revenue being added, added at a higher margin, so the profit margin moves up. This is the path we have been on for many, many quarters now. So, I think it's tried and true and you will see more of the same.

**Dilip Kumar Sahu:** Great. Coming to the U.S. business, for last 4, 5 quarters, our business in the U.S. has been around \$20 million plus or minus, and we have always been having a lot of order backlog. So, what is that we are going to do to go to that you were talking about \$100 million, \$150 million

sooner. So, how do we go to that \$30 million, \$35 million per quarter kind of a trajectory? Is it an internal roadblock or are we having some external constraints?

**Aditya Rao:** Not at all, sir. I think it's, as I mentioned, primarily and Shrikant had alluded to this as well, there was a raw material price crash. These are temporary cyclicalities that happen. But overall, if you look at a tonnage point of view, we had a growth in our U.S. business of --

**Shrikant Bhakkad:** Well above 30%.

**Aditya Rao:** Yes. So, good double-digit growth has been there on a tonnage production output point of view. These are cyclical things that happen. It's an election year. But from an overall capacity point of view, we are growing it quickly. And once the current cycle of raw material is done, and I think prices are already on the rise up, you will see revenue growth coming in. I don't believe we have a challenge. You mentioned \$35 million per quarter, and I don't believe that is something that is very difficult for them to achieve. I think it's just a question of building capacity, increasing DMS, as I mentioned. We do both of those things, and the U.S. will take care of itself it, sir. I have absolutely no doubt on that.

**Dilip Kumar Sahu:** So, in terms of competitive intensity or in terms of in a product range that we have, both are not a challenge for us because our product range is quite narrow compared to other large players that are there.

**Aditya Rao:** No. They are large players. I think where we perhaps have a competitive disadvantage is that anyone who has multiple plants will be able to feed larger projects because of lower cycle times. I mean they can execute them quicker. So, there's an obvious preference for them perhaps. But that's an advantage that goes away as our own production capacity scales. So, not a permanent impediment. And quite frankly, for the orders that we are taking and for the addressable market we have right now, we are not at a disadvantage as far as competing with players.

We do compete with and take orders from the Nucors, from the Cornerstones, they're all multi-billion dollar companies. And because we have a strong team and because we have strong design capabilities, I believe that we can actually convert it to a source of competitive advantage. Do bear in mind that we do a lot of work for cornerstones. A lot of cornerstone's design itself is done by Pennar in our Engineering Services business. So, all of our competitors in the U.S. are our customers. So, it puts us in a position which is quite appealing where we can ensure that we are able to keep adding DMS, keep adding capacity and add revenue over the short and medium term.

**Moderator:** The next question is from the line of Chirag Gandhi from Astralit Investment. Please go ahead.

**Chirag Gandhi:** I just have a couple of questions. Is it possible for you to break up our sales number between focus segments and defocus segments? First question is that.

- Aditya Rao:** We don't have that attribution ready for you right now. But I understand why you're asking, and we will provide this from the next quarter. In fact, at the Board level also, we have taken a call to provide this breakup. So, we will do that from the next quarter.
- Chirag Gandhi:** And just to clarify, you have said that we will have a good double-digit growth in the focus segment while the revenue leakage from the defocus segment will stop from here, and we will have a BU status from this year onwards. That is what you said, right?
- Aditya Rao:** Not exactly, sir. I said overall, we will grow revenue and profitability, including prioritized and deprioritized. But yes, our prioritized segment, we will have high growth, yes.
- Chirag Gandhi:** But the revenue leakage from defocus will continue is what you are saying?
- Aditya Rao:** Yes, that is by nature what is going to happen because we are not deploying capital into those businesses, but over time and in a gradual, sedate manner, sir.
- Chirag Gandhi:** Next question is in terms of what is the size of our PEB business in India?
- Aditya Rao:** Our revenue base last year was about Rs. 780 crores. And this year, will be much high.
- Chirag Gandhi:** So, Rs. 780 crores of revenue, so we have one-time revenue as our order book currently in our hands. That is what you are saying, right?
- Aditya Rao:** I mean for the Rs. 780 crores the order book was much less. The order book we have right now for PEB business will be, I mean, it's supposed to be executed in the next 5, 6 months, okay, 6 to 8 months, with a little bit of delays and others, it can trend to 8 months, but it's not meant to address the whole year.
- Chirag Gandhi:** And just a last question. What is typically the market opportunity size for the PEB business? Can you give some sense like how big is the opportunity size here?
- Aditya Rao:** Do you mean the addressable market in India?
- Chirag Gandhi:** Yes.
- Aditya Rao:** Breaks up into about Rs. 7,000 crores to Rs. 8,000 crores all over India.
- Chirag Gandhi:** Rs. 7,000 crores to Rs. 8,000 crores.
- Aditya Rao:** They have about Rs. 2,000 crores and there are 3, 4 other players.
- Chirag Gandhi:** Basically, a last clarification. You said the PAT, PBT or the PAT margins, we should be comfortably doing around 7% in the next couple of years. That's the PBT margin, right, 7%?

**Aditya Rao:** Yes, I think we said a PAT margin of 5% and a PBT margin of reaching those numbers, 6.5%, 7% over the next 2 years, yes.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments. Over to you, sir.

**Aditya Rao:** Thank you. I appreciate everyone's questions. We will continue to be on the path we're on and articulate our plans and execute them. Thank you so much for your time today.

**Moderator:** Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes the conference. Thank you for joining us, and you may now disconnect your lines. Thank you.