

Date : 14.11.2024  
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 Q2 FY25 Results conference call hosted on 13<sup>th</sup> November, 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 2<sup>nd</sup> November, 2024, please be informed that the Results conference call for Q2 FY25 was hosted on 13<sup>th</sup> November, , 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 Q2 FY25 Earnings  
Conference Call”**

**November 13, 2024**



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

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Pennar Industries Q2 FY25 Earnings Conference Call hosted by PhillipCapital (India) Private Limited.

This conference call may contain forward-looking statements about the company which are based on beliefs, opinions, and expectations of the company as on date of this call. These statements are not the 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 “\*,” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vikram Suryavanshi from Phillip Capital India Private Limited. Thank you and over to you, sir.

**Vikram Suryavanshi:** Thank you. 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 management of Pennar Industries for question-and-answer session with the investment community.

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 Relations.

Before we start with the 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. On behalf of Pennar Industries, I would like to extend our heartfelt appreciation to all of our stakeholders for joining today's Investor Conference call for the 2nd Quarter Financial Year 2025. Your involvement means a great deal to us and we are genuinely grateful for your ongoing interest and support.

The agenda today, we will start with an overview of our “Quarterly Performance.” As usual, we will highlight key metrics such as revenue, profit before tax, working capital management and our strategic growth initiatives. Following this, our Chief Financial Officer – Mr. Shrikant Bhakkad will provide an in-depth presentation on our Financial Results. After his Presentation, we will open the session for questions from all participants.

So, let me start with the aggregated summary:

For Quarter 2 Fiscal 2025, PIL reported a total income of Rs. 753.53 crores and a PBT of Rs. 36 crores. The decline in revenue of around 8% partly expected and our PBT, however, grew by 20%. We recorded a cash PAT of Rs. 44.31 crores.

Now, we were expecting a flat quarter due to the replacement of older revenue with new high margin revenue, which has been a trend for the past few quarters. The decline was because of delays in commissioning of our Raebareli plant and also in converting our US order book revenue due to the US election. Both of these are temporary concerns, and we already achieved the high capacity utilization in PEB in October and have seen a dramatic ramp up in our US revenue in the current quarter. A lot of backlogs across the board look very strong. Our process equipment order backlog also has increased to record high. So, we are confident and are projecting a very strong Q3 and Q4, allowing us to record our highest ever sales and the highest ever profitability and cash generation in this financial year. Our growth drivers continue to be PEB India, Ascent, which is US PEB business, process equipment, engineering services, tubes, and hydraulics.

Let me move to profitability:

Our PBT of Rs. 36 crores was achieved at a percentage of 4.82%. As you have guided, we expect margin expansion to continue as higher margin value revenue continues to scale. Our current working capital days as of September 30th have seen an increase by 3 days to 77. This is primarily because of increased inventory holding in anticipation of higher Q3 sales. There is a lot of order booking that came in late September and in order to cater to that, we had to increase our working capital. We expect to get back to 74 days very soon within the next 2 months and have a goal of 72 days by March 31st.

That concludes my overview of our financial performance.

I would like to hand it over to Shrikant for a more detailed financial analysis. Thank you so much.

**Shrikant Bhakkad:**

Thanks, Aditya. Welcome to the shareholders and investors on the 2nd Quarter FY25 Earnings Call. Key matrices include total income of Rs. 753.53 crores from Rs. 820.04 crores.

On the gross margin, there is an improvement by 357 basis points from 38.27% to 41.84%. EBITDA has reached about 10% and it is 16% up from 9.35% on quarter 2. PBT is now Rs. 36.05 crores up by 21.26% at 4.82% and PAT at Rs. 26.87 crores, 3.6% and up by 20.17%.

In terms of revenue, as you are aware that we are exiting the low margin businesses with our continued focus to improve on the margins and cut down on the sales with lower margin businesses, you see the increase in the profitability of the businesses. Revenue has scaled up in terms of metrics perspective, but revenue has relatively not grown in terms of the lower raw material prices in **(Inaudible) 5.28** due to reduce offtake it reduced collections. We expect now

that the elections are over, the revenue will start increasing. Standalone revenue will also see degrowth in the coming quarters. The diversified engineering revenue for Q2 FY25 is at Rs. 416.36 crores compared to Rs. 473.56 crores and the custom design building solutions stood at Rs. 353 crores compared to Rs. 406.88 crores. Though the revenue has been decreasing, good thing is the order book in the PEB India has increased to Rs. 800 crores and PEB US to 54 million and we are confident that the revenue will go up in the next quarter.

Happy to inform to the largest stakeholders our Raebareli plant is up and running and it is functional and it will start contributing to our revenue from the present quarter Q3 FY25. In terms of other income, it includes deposit income, income from mutual fund, incentives, exchange fluctuation and collection of old receivables. Extending the explanation **(Inaudible) 6.25** further employee benefit expenses, Q2 FY25 is Rs. 81.02 crores when compared Rs. 77.67 crores. The increase is Rs. 4 crores and it is on account of the increment in the higher headcount and account of manpower that we have recruited for our Raebareili and other growth initiatives.

In terms of finance cost, the consolidated Q2 FY25 is at Rs. 27.69 crores and compared to Rs. 29.87 crores. This due to the lower sales and capitalization of term loan interest for the 1<sup>st</sup> Quarter. The total borrowing of the company is now at Rs. 1,190 crores when compared to Rs. 1,092 crores in the last period. There is an increase in case of our term loan as well as the working capital. The total term loan is now Rs. 208 crores.

The working capital borrowing has increased because we have deployed the money for the inventory, and we expect this to rationalize in the coming next 2 quarters. Overall, in terms of interest on exchange percentage, where we guide to, it is now at 3.7% and compared to 3.67% there is an increase of 3 basis points. This is predominantly on the higher working capital increase that has seen. We expect this to lower and our target is to come down to 3.75% once we start capitalizing the interest on the term loan.

Depreciation has increased from 16.6 crore to 17.4 crore predominantly on account of the capitalization that we had in subsidiaries and standalone entities. PAT has increased from 24.79% to 25.31% predominantly changing our sales at our US subsidiary asset. We will guide you to take **(Inaudible) 8.31** and state tax 31% at 5.5%, the average close to around 25.6%. We expect the consolidated rate to be 25.5%.

Overall analysis in terms of revenue, revenue has gone down predominantly in PEB business in India and US. An increase in profitability is due to better margins in our boiler and tubes services and the overall other entities. And our profitability will further go up due to the margin expansion that we have planned for ourselves.

In terms of the balance sheet numbers, the change in assets is on account of two things, on account of non-current assets by Rs. 73 crores and current assets by Rs. 85 crores. Non-current assets are predominantly increased in the property plant and equipment by Rs. 134.66 crores this on account capitalization of our corporate office and Raebareli building and some part is Ascent

due to the **(Inaudible) 9.09** that we have purchased. Our inventory standalone has increased by Rs. 73.39 crores with an anticipation of the next quarter we have got the inventory. The growth had decreased overall in standalone by Rs. 12.4 crores and the subsidiary Rs. 18.2 crores. So, overall, there is a good collection that we have seen and that is the reason you also see the increase in investments and the cash and cash equivalents.

The cash and cash equivalents have grown by Rs. 20 crores and investment in standalone temporary parking free money in the mutual funds by Rs. 10 crores. Other current assets in standalone increased by Rs. 13.32 crores, which is an affordable CAPEX advances that we have given to our vendors. In India, it is Rs. 11 crores, then subsequently Rs. 2 crores. Overall, there has been increase in the fixed assets by another Rs. 35 crores and current assets by Rs. 64 crores, which has been explained in the various form above.

Coming to liabilities:

Liabilities include non-current, current and equity. The non-current increased to Rs. 18 crores, current liabilities by Rs. 87 crores and equity by Rs. 55 crores. Change in liabilities on account of higher borrowings and other current liabilities by Rs. 3,497 crores. Long-term liabilities, as I have explained, it is an account of the increase in the borrowing of our liability front as we got with office. The decrease in the rate payable is an account of more credit that we have got from the vendors, we can increase our rate payables by Rs. 5 crores. Change in liabilities is an account of amortization of lease liabilities and advances from the customers that we have issued. It is predominantly on account of the profit that we have for the quarter. That includes the balance sheet analysis.

In terms of cash flow analysis, the operating cash flow before the working capital changes at consolidated level is Rs. 157.98 crore, when compared to Rs. 139.59 crore. This is attributable predominantly on account of operating activities, which is positive Rs. 102 crores, investing activities, Rs. 90 crores we had invested, and financial activities, Rs. 9 crores. Overall, there is an increase in cash equivalents by Rs. 20 crores.

That concludes my analysis on balance sheet and the cash flows. The last thing that I would like to inform our order book of PEB has increased. Now, it is at Rs. 810 crores and I think that it has increased to 54 million. This concludes my analysis on the profitable account. I would be happy to answer the questions.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Harsh Bhotra from Art Ventures. Please go ahead.

**Harsh Bhotra:** My first question is in line with our earlier concall guidance PBT about 7%. What is the expected timeline which we see and what are some levers if you can explain?

**Aditya Rao:** So, the 7% PBT would be achieved as our higher margin revenue scales up. These tend to be our margins, our business in the US Ascent industrial components and hydraulics here, and also engineering services and metal buildings here. So, as you have seen, there has been 200 basis point expansion over the last 2 years, so something similar over the next 2 years. So, over a 2-3 year timeframe, I think internally we have a more aggressive target, I think the 7% PBT is what our plan calls for.

**Harsh Bhotra:** And my second question is in line with as we have earlier guided to exit our low margin business, first of all, first explain me what are those low margin business and same like what is the expected timeline to exit them?

**Aditya Rao:** So, we decided to focus most of our capital and man hours on effectively 5 businesses, so that includes us reducing our revenue and maybe in some business units. These business units are typically our water treatment and environment business, our chemicals business unit, our aerospace business unit is another vertical which has seen a reduction and also across steel and across railways and our solar EPC, solar MMS, module business. So, there is almost, I would say, 7-8 revenue streams which have been removed. So, the impact of that is a reduction in an overall revenue of the company, whether or not growth in other verticals by close to about Rs. 1,000 crores. However, because the other verticals are also growing, the ones we want to scale are scaling up, it is a plus and a minus and overall, this year we will have a plus as we did last year as well and we are looking for that. So, over the next year, we will be able to fully locate these revenue streams.

**Moderator:** Thank you, sir. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

**Darshil Jhaveri:** Sir I just wanted to understand now the Raebareli plant will be operational from this quarter, so would it impact the margins or how like the extra cost will be factored in for it, like have they already hired employees, just like what could you given us some color on how the economics of the plant will work like utilization that we can expect currently, what kind of revenue contribution can be?

**Aditya Rao:** So, the commissioning of the Raebareli plant effectively increases the production capacity by about 25%-30%. Due to a combination of factors, our actual revenue growth in PEB for this quarter is projected to be higher than that. So, effectively the impact on margins is a fair amount of operating leverage that comes in. So, we do expect to see margin expansion. We expect to see profit expansion as well. The fixed cost that is added on has already been added on and we don't anticipate any other massive increase in fixed cost.

**Darshil Jhaveri:** And sir, with regards to our interest cost, so I think just to confirm, you are saying around 3.75% of the revenue roughly, like we will be in this range only right now, correct sir?

**Shrikant Bhakkad:** Yes, 3.75% is the next year is what we would like to tell you too.

- Darshil Jhaveri:** Any kind of revenue guidance for H2 and FY26 in revenue and margin guidance?
- Aditya Rao:** I think you will see revenue growth and profit growth and margin growth, as you have seen over the past 3-4 years, that trend will continue because they are really just continuing along that path. So, we will not be able to give you an exact number or a percentage, but as I said in the previous question, I think at least a 200 basis point, 300 basis point improvement over the next few years is definitely what we are targeting.
- Moderator:** Thank you. We take the next question from the line of Vivek Kumar from Best Power Research and Advisory. Please go ahead.
- Vivek Kumar:** Can you throw light on this Pennar's outlook on US? Because now that Trump has won and things are more clearer, and also PEB business here, because the competitors are reporting really good numbers. So, if we can throw 1-2-year outlook on these two Pennar PEB US and India.
- Aditya Rao:** Let me start with PEB India. PEB India is, as Shrikant mentioned in his presentation, our order books at a record high. We are scaling that up further. With the increased capacity expansion that has already come in October with the Raebareli plant, we have seen a revenue increase in that. So, we are quite confident this year will be obviously our highest ever in sales in pre-engineered buildings, but for the medium term, I think growth is factored in now with our current positioning. PEB US, yes Trump has won, but we don't make our strategy plans on short term political developments. The longer term picture is that we have a strong, we have a highest order book in the US as well. That too is projected to grow. We are undertaking capacity expansion. I believe this quarter is quite good. We did have a muted Q3, but that is just because of temporary as you said, because of elections and other issues the trend was a little lower, but I take comfort in that order book growing strongly and a market share being small means that we will be able to scale that business quite well. So, we are very bullish on PEB US, what we call as said we are very bullish on India, both the order books are very strong, growing stronger and capacity is coming online and has come online and both giving us high confidence in revenue and profit growth in both verticals.
- Vivek Kumar:** So, over the next 2-3 years, you feel most of our revenue lines should be firing right, vis-a-vis what happened in the last 4-5 years in a sustainable manner, most of, I am not saying every line of revenue?
- Aditya Rao:** I am sorry, you said over the next 2-3 years.
- Vivek Kumar:** See, if you compare the last 2-3-4 years, can we assume, I agree that nothing is in our hands, but over the next 2-3 years, most sustainable growth in terms of more revenue streams fighting up should happen, right? At least it looks like that as of now. Can I assume that?

- Aditya Rao:** There is a little bit of distortion, but I think let me repeat the question and understand if that is the question. Over the next 2-3 years, we will have sustainable revenue growth and profit growth, was that the question?
- Vivek Kumar:** Yes, but with more revenue, more product lines fighting up, not just from one. So, it is always what happened in the last 3-4, we had to restructure a lot of revenue lines. So, will it?
- Aditya Rao:** Effectively, we are growth drivers. More product lines, yes, but what is existing? They are not going to be doing anything new. Our existing revenue streams are pre-engineered buildings, hydraulics, process equipment, engineering services, tubes. All of those have large order books and a lot of potential. The market leaders and all of those are 2-3 times our size. So, our ability to grow market share is this. And I am very confident about that. So, all of those are firing up and scaling. It is not just PEB India which will have our highest ever sales. We will also have highest ever sales in our boiler business, our process equipment business. We will have highest ever sales in our engineering business. So, we are projecting good things across the board. It wouldn't just be one revenue stream. But PEB is a big revenue stream, I agree. That is definitely the case.
- Vivek Kumar:** So, any comments on working capital, your target working capital in terms of number of days as converted?
- Aditya Rao:** It is 77 right now, but that is a temporary aberration. If you look at the last few quarters, we have had these quarter spikes. We are usually gearing up higher revenue, which is what Q3 and Q4 look like. So, you will see a little bit of spike, but by the end of the year, we want to get back to 72 days. It is probably already down to, 77 it will be down. It is just a function of what our revenue is.
- Moderator:** Thank you. The next question is from the line of Gunit Singh from Counter-Cyclical Investments. Please go ahead.
- Gunit Singh:** So, I would like to first understand what is the capacity utilization currently across the plant and with the new plant coming in, what is the additional revenue potential from the new plant?
- Aditya Rao:** So, at peak, the capacity utilization, it is about 2,000 tons, so that is about Rs. 300 crores that can be added. We are also, however, expanding capacity at our current plants, so the overall revenue growth potential for PEB would be higher than that number wires capacity utilization increases. And peak is 100%, we typically look at 70%-75% OE, availability of operating efficiency. So, on that metric, I think what is on the table is revenue growth of over Rs. 300 crores. And that is for PEB. So, you wanted a larger capacity utilization picture, correct sir?
- Gunit Singh:** I want to understand with our existing capacity, what is the revenue potential, maximum revenue potential?

- Aditya Rao:** The maximum revenue potential in the five, and also let me try to answer that as best as I can. As I mentioned to you, the revenue verticals we are actively getting out of, right? So, in that paradigm, the ones that you are continuing to grow or trying to grow right now, that revenue potential would be at a current capacity we have available would be about Rs. 5,000 crores from a revenue side. But we would obviously be expanding that with additional capacity expansion.
- Gunit Singh:** So, sir, what kind of additional capacity are we coming up with apart from the Rs. 300 crores that you mentioned and what are the timelines?
- Aditya Rao:** In pre-engineered buildings?
- Gunit Singh:** Yes.
- Aditya Rao:** In pre-engineered buildings, in India and the US, we are adding green plant capacity. We will be looking at another plant in the West of India, both catering to both PEB and structural and high-rise structural and high-value structural. In the US also, we are looking at expanding to a new plant which will also give us metal buildings and high-rise structures. So, the combination of all of these plants is coming online, the timeline is about a year.
- Gunit Singh:** And sir, what is the CAPEX maximum revenue potential from these two?
- Aditya Rao:** Typically, the industry works at an asset flip of about 6 or 7. In order to realize our growth potential, it is necessary for us to make these investments. So, overall CAPEX for everything that I mentioned will need to be finalized, but as of right now, I don't have a number for you on exactly what it is. We would like to finalize that. But it won't substantially change the debt equity picture. It is something that we have always done. Just as you always find it capacity, we will continue to do it. Exact number for you on all of those projects, I don't have right now.
- Gunit Singh:** Sir, historically we have been at about 8%-9% EBITDA margins. So, what kind of EBITDA margins are we targeting and what gives us the confidence to improve upon these margins because these are the numbers that we have historically been at? And what would be the main drivers of expansion in our margins?
- Aditya Rao:** So, we are already above 10% EBITDA, not 8, 9, we are about 10. And that has sustainably been the case for the last 2-3 quarters. I don't believe we are going to get back down. I don't see that on the horizon right now. From a future margin expansion, what gives us confidence is simply that the revenue that is being added was growing. Is it an operating margin that is well, far higher than our current EBITDA margin. And the absolute peak of your EBITDA can obviously only be your operating margin. This tremendous operating leverage, we are now going to be duplicating so much of our cost as we expand these business units, includes PEB, includes PEB US, includes our engineering services business as well. So, with a lot of high margin businesses growing and that revenue coming in, the impact on whatever additional operating margin you

bring in falls directly down to PBDT. So, that is our confidence that our EBITDA and EBITDA margins will go up.

**Gunit Singh:** My last question would be regarding the growth, so what kind of CAGR are we looking at for the next 2-3 years and in FY24 we did about Rs. 3,100 Cr while you mentioned that the maximum revenue potential is Rs. 5,000 Cr. So, by when do you envisage us reaching Rs. 5,000 Cr in your opinion as per the current market demand?

**Aditya Rao:** The hard work was mapping out our revenue. I think the orders are there for the taking. We are not constrained by the market. Our market share is so low that we could literally expand our order books substantially. Our job will be very simple, increase our order backlogs and our scheduled customers, increase our asset base, thereby increasing our revenue and because the revenue is coming in from high margin, that takes up the overall margin. So, that is effectively the point. You will definitely see high growth. Our plan is obviously sustained double digit growth. Even this year you would have seen a little less muted growth is because of the exit of the old revenue streams. So, that is a long tail and it goes away and as we grow it becomes a lesser and lesser proportion of our overall sales. So, we are not concerned here. Put another way I think if our Raebareli plant come online at least a quarter earlier, which is what we had initially anticipated, we would not have any revenue fall at all, quite frankly. So, that gets reversed. Q3 onwards, we have strong revenue growth, so Q4 also, we will project that, and next year also, we will continue to be on this path. So, the combination of large addressable markets as increasing our capacity utilization and our market share will result in revenue growth and sustainable high revenue growth. So, that is our base case business model. It has been working on for the last 3-4 years. I see no reason why it won't work for the next 3-4 years.

**Gunit Singh:** Is it realistic to assume about 20%-25% growth or when you said double digit we are talking about something in mid-teens or in that range?

**Aditya Rao:** We will achieve the higher growth percentage, but I think at this point, I can come into double digit growth.

**Moderator:** Thank you. We take the next question from the line of Mohit Arora from SOIC. Please go ahead.

**Mohit Arora:** Basically, do you think that we will see some bit of operating leverage start playing out in the H2 of this financial year when it comes to looking at the operating margins of the company?

**Aditya Rao:** Absolutely, I think in several businesses our new capacity comes on and as I mentioned it is not just our Raebareli plant. It is other plants as well as our capacity as well. We do expect that operating leverage comes in. As I mentioned, all the revenue that you add, you add that at a high enough operating margin, all of that falls down to your EBITDA, to your PBDT, quite frankly. So, yes, whatever has been happening for the last 20 or so quarters will continue to happen, which is that revenue increases because it is increasing at a higher operating margin that drops down. Our fixed costs don't rise anywhere near that quickly. Our fixed costs typically tend to

increase at a single digit percentage per year. So, the overall effect on our margins is expansion of our contribution, EBITDA, and PBDT.

**Mohit Arora:** And sir, second question is that currently on the balance sheet, I see there is another CWIP of Rs. 128 crores capital works in progress. Is this related to the hydraulic CAPEX that we are doing?

**Aditya Rao:** We had some CAPEX and other some revenue streams, the Body in white business revenue streams and others. All of that should get, it will get capped in the next two quarters.

**Moderator:** Thank you. We will take the next question from the line of Varun from Equitree Capital. Please go ahead, sir.

**Varun:** My first question is related to some of the small businesses which you have exited in solar module. So, where has that cash flow been utilized?

**Aditya Rao:** Typically, the exit would mean not that we have sold those businesses, but that working capital has reduced. Since our working capital days has reduced, effectively, we've flown back into and gotten into our other revenue streams, which we are trying to grow.

**Varun:** And if you could guide on the overall debt trajectory, so it's been increasing even on the cost of debt so going forward when we can that we see that declining?

**Aditya Rao:** The interest cost that Shrikant has guided, what we use as a metric is that it should be a certain percentage. That's how we price our orders. That's how we take it. And most of our working capital is non-cash debt. It is not cash debt. It is something that's backed by our accounts receivables and inventory. So, that is a part of the business and that will continue to go up. As the revenue grows up, the non-cash debt will go up. The majority of our debt is that, LCs and EGs and others. So, that will continue. As far as the interest cost is concerned, I think while we had a reduction from the previous quarter to this quarter, overall, it will also add revenue growth, 3.75% is what we intend to pin it at.

**Moderator:** Thank you sir. The next question is from the line of Ashish Soni from Family Office. Please go ahead.

**Ashish Soni:** In this quarter how much percentage was your low margin business?

**Aditya Rao:** So, our overall low margin business is now at, it's still at about 30%. I don't have an exact number, but I'll endeavor to get that to you, but that's a ballpark number, and allow me to do our math, and we'll get back to you.

**Ashish Soni:** And what about growth in your strategic areas, like how much percentage growth in different areas, if you can give a ballpark on that as well?

**Aditya Rao:** All of the revenue streams we've chosen for scaling are scaling well. I mean, the picture you see there would not be a quarter-on-quarter picture, but what's happening on the cyclicality in these businesses as well, there's a year-on-year basis. None of these businesses are de-growing. All of them are growing. And all of them are growing at double digit.

**Ashish Soni:** And in terms of PEB, there is a lot of competition in India as well as US. So, are we seeing some market share challenges at least in these two markets? Or in terms of scaling up, because I know the order book is increasing, but is it the same pace as your competitors are doing?

**Aditya Rao:** If you are correct, it is a competitive space, but I think the certain advantage is we have a higher market share. I think we're either number two or number three, **(Inaudible) 33.14** right now in the market share point of view. But our growth rate seems to be higher and we're sure it's higher. We're not targeting to be number one in market share. That's not the way we see things. We want to be number one in gross. And even that is not the case right now that we are number one. But I'm quite confident that we have no impediments to growth. I mean the broadness of the sector, even though it is competitive, yes, but the broadness of it, of custom design building system is so vast with its factories, warehouses, commercial centers, even residential buildings, even high rise buildings, that it's a bellwether for the construction industry. So, as long as there's that sector, the broad Indian economy is open and doing well the addressable market here will go up and that's what tends to happen. And we have good references, good capabilities, well over 50% of our order book is repeat customers where people have given us orders and are giving us orders again. So, I'm not concerned. In the US, it tends to be a little different. It's a lot more relationship based. So, well, we have our sales team in the US is quite strong. So, our DMs, our district managers, our people who have in some cases decades of experience in this industry not concerned of our ability to build up our order book. And that's been demonstrated by our order book going up as well. In fact, we are choosers of orders right now. We pick and choose which orders to take. So, the market is not going to prevent us from growing either in India or the US. I don't believe that would be the case.

**Ashish Soni:** The last question I think is you spoke about \$1 billion revenue aspiration. Where do you see it getting materialized in your plans?

**Aditya Rao:** We have our internal plans. I would not be able to guide you to when we will reach a billion, but I can tell you that our goal internally is to scale and scale powerfully over the next few years. We are very confident, our best days are in the quarters and years ahead of us. So, you will see us achieve that goal. And we have our plan. We've done many exercises internally and we're geared up to increase our revenue, our profitability and quite confident that we will be able to achieve those numbers.

**Ashish Soni:** One last question, I think if I recollect the low margin business was almost 45% in 1 or 2 quarters back. Now we said 30%. So, what is this 15%? Have we completed some of this, and exited some of these businesses completely? If you can elaborate on that, that will also help.

- Aditya Rao:** So, some businesses are order books done, revenue is done and it has gone to zero. For example, our environment business is down to zero. Chemicals is almost down to zero. Our retailers is down to zero. Solar EPC is down to zero. So, there are several cases where it has gone to zero, but there are some other businesses which are longer-term contracts, and it will take us some amount of time. But as you can see, for comparison purposes, this used to be, these businesses that we have exited used to be the majority of the business three years ago. So, over time, we've brought it down from well over 50 to 45, the 30 has confirmed, sir, but it's in that ballpark. It's not very, very different from that. So, I think over the next year, you will see it becoming smaller and smaller. But we want to be a little methodical in this. We don't want value destruction also to take place. So, some of these we will also have strategic growth options. Nothing that we can comment on or describe to you right now, but what I can commit to is it will be a smaller and smaller portion of our consolidated sales. And what we are growing is well-placed to grow quickly and strongly.
- Ashish Soni:** And just last question on this land bank that you have, so any plans on that discussion at board level to diverse that?
- Aditya Rao:** Could you say the land bank? As of right now, nothing to comment on that.
- Ashish Soni:** But do you have any aspiration in the next 1 or 2 years, because I think you're planning for expansion, right? So, instead of thinking in that direction to diverse and use that instead of taking that?
- Aditya Rao:** We are considering all of those options. We are right in the land bank, and there's no point us sitting on a land bank. We are not a real estate company. So, we will explore all options, but as of right now, nothing to do. By nature, these tend to be in the medium term to longer term. But we're not constrained in the sense that we are not able to implement our projects. But you are right in that it is absolutely a resource we can tap in order to fund our growth. And when we have something on that, we'll get back to you.
- Moderator:** Thank you, sir. The next question is from the line of Dilip Sahoo, an individual investor. Please go ahead.
- Dilip Sahoo:** Adi, this question is regarding our balance sheet. There are multiple moving parts in our business currently. We are trying to dial down almost one-third of our business around Rs. 1,000 cross to zero. And how do you take care of the receivables and CAPEX? The second one is our quality of our new business is improving profitability, cash conversion cycles etc. And we are investing quite substantially in CAPEX in our PV business in India and US. So, how does all this impact our balance sheet in next 2 odd years? Are we going to look at, I'm primarily looking at the gross debt which hasn't moved much in the last 2 years. Can you give some idea about how our balance sheet is going to look like in next 2 years?

**Aditya Rao:**

Thank you, sir. So, you're right, we have growth aspiration and that's going to take capital and it is going to take our profit, and our increasing profit is one such source. The other source is debt effectively. We are primarily working capital heavy and working capital non-cash heavy. So, the debt we need to grow from a capital point of view or a CAPEX point of view isn't very high. Even if we wanted to invest say Rs. 1000 crores over the next 3,4 years, that's something that will be more than adequately covered by our profit where it is right now and our growth as well. It will be covered. A long-term debt so to speak is only a small fraction of our thing and it isn't projected to increase by that much either. We're not too concerned about that. There's also significant resources within the company where if we see the debt equity inch up beyond that, and we've done this in the past as well, and we sold about one of our land parcels for a fair amount of capital influence to the company. So, there's substantial land assets in excess of about close to 400 acres within the company. Some of that is prime land. These are resources we can tap. So, I'm not concerned about debt equity increasing beyond control, but to give you a metric, I think we are right now at 0.7, debt equity 0.76. So, we don't anticipate it ever growing above 0.8 for example. So, there are levers we are using, and from an interest cost point of view, what we've to 3.75% is what we will want to use as the metric. That is what we want to be at. Our current growth plans do not call for a dramatic expansion of our debt or our leverage. And, I do not believe you will see us have debt equity substantially different from what it's at right now. I do bear in mind, sir, that this debt equity includes mostly vast majority is working capital debt, over 80%. And the majority of that is non-cash. So, we have backed very well by current assets. Our quick assets are quite positive. Our credit rating is another aspect that plays into it. We want to target an expansion of credit rating. We are at A right now. We want to get to the A pluses. And I think it's important for us to monitor our debt carefully, and we are going to continue to do that.

**Dilip Sahoo:**

Where I was coming from is a very healthy balance sheet and cash in the books gives you strategic opportunities, like the way you have bought back at Rs. 30 and Rs. 40 two, three years back. Those kinds of opportunities when they come, as and when they come, that opportunity can be utilized if you have a healthy balance sheet. That's where I was coming from, whether it is buyback or acquisitions because we are in a cyclical business and there are business cycles that we will go through, now maybe positive, and sometimes later maybe negative. Then, catching the books will give us leverage to seize those opportunities. But I understand where you're coming from. And I think what you're saying that we are not going to mutilate the balance sheet and we'll be careful about the health of our balance sheet. That's good. The second question is this boiler business, what quality of customers do we have in this business? It looks a lot like the SME sector to me. So, what is the receivable health in this business?

**Aditya Rao:**

Our receivables are extremely healthy. In fact it's probably best in class from a working capital point of view as well. Inventories are a little on higher side maybe, but receivables to my knowledge not absolutely an issue. In fact do you have the number of days for this?

**Shrikant Bhakkad:**

Boilers in terms of receivables hardly 2 to 3 days, we get almost every money in advance and then it's only LC and discounting by the time the bank takes and credits money back into the

business. So, in terms of boiler business, the receivables quality is absolutely clear and there have been no bad debts, at least as far as the boiler business unit is concerned. In terms of inventory, yes, they start the inventory because it takes time for those boilers to build it over a period of time. So, we generally have one month of inventory, which is 45 days usual in this business.

**Aditya Rao:** And from a customer profile point of view, presently, all of our customers are the same thing. The same customers we sell for engineering buildings to, for example, the process industries, power plants, cement plants, sugar plants, those tend to be our customers for process equipment, for boilers as well. So, there's a high overlap and all of these tend to be larger companies as well. Right now our product range is, we're broadening it a little bit. We're not where the max is right now, but I think with the new management team that's also come in recently. I think our aspirations for the business are quite high. Order books are strong and it's not unstructured, it's not SME, the account receivable is quite healthy. The working capital is very high in our assessment.

**Dilip Sahoo:** Okay, great to hear that. My last question is regarding US business. We are kind of going through an operating deal leverage, our setup has grown up quite substantially in terms of expenses, but our revenue seems to be coming down for last 4 or 5 quarters and you have given your reasons. So, as we go forward, our order book has gone from \$30 million to some \$54 million now. So, as we go forward, how do you see the profitability of US business and can you give some ballpark on how next year is going to look like for US business because it has been quite topsy-turvy for last two years. That's why I'm asking about next year's view?

**Aditya Rao:** So, you're absolutely right. So, the order book is very high. The last quarter, the revenue hasn't been where it is. We are very confident that revenue will be. And this quarter, sales are quite strong. October was very strong in the US. I do want to give you some a little bit more clarity on this also, sir. This year, for example, we actually moved more tonnage that we did last year in the US. What did happen was raw material prices in the US actually fell by a lot more than they did in India. And because of that, you're seeing some declines in that. Be that as it may, our operating margins are quite strong. We get upwards of 28%, close to 32% on our US order books in metal buildings. What is there right now is quite strong. And while we are insured from any raw material price movement to impact the margin, I think the output point of view, it's been a little, as you said, the last two quarters hasn't done what we expected it to do. But that's in the rear view mirror, I am quite confident that this year, and we use the calendar year as the year for the US, you should absolutely expect growth next year because of the new capacity has come online, our production capacity has gone up. And I'm not going to say that Trump is the reason, but whatever the reason, I think we see very healthy offtakes now. And I have no doubt that this quarter will be good, and next year will be good for our US business.

**Dilip Sahoo:** Thank you. All the best. And hope for a better half compared to the earlier H1.

**Moderator:** Thank you, sir. Next question is from the line of P. Jha, an individual investor. Please go ahead.

**P. Jha:** I have two very simple questions. The businesses which we are closing, have you made any serious attempts to sell them which is way seem to be, fill the order of the day, be it railway wagons, be it the EPC, solar, and the panels that you are making. So, that's one part of question and also whatever it releases other than the strain on your working capital, the resettlement of labour to plant and machinery and the land thereon. Does it generate some revenue? The best scenario when you are able to sell them, the last scenario when you are able to break them down and kind of still save some revenue. That's one question. The second question is my friend always maintains about your company that you also have a software part of your business for the engineers. So, what are the steps that you take to scale it up? Which has the potential to surprise us all? Thank you.

**Aditya Rao:** So, as you said, several business units have closed. We have unbound their order books and revenue streams for those businesses. And we are looking at strategic options. The board is looking at them. Once we have something to share, we will be able to share any information we have on that. But you are right that there's a lot of value in those revenue streams. These may have decided to discontinue, not because they were not profitable, but because we had to choose. We don't have infinite capital. So, we have to focus on few businesses, all of them correlated to each other and growing. So, those other businesses, there are options available to us. We are discussing them and we will come back to you on that. I mean, necessarily we could only do that once we had moved our majority of our revenue to another, to other revenue streams which are growth business, which is what has happened this year. So, we will definitely give you and besides these options develop, we will give you clarity on that. But you are right that is the approach we should take. We should not look at value destruction, for example. So, that is on the views that are closed. The second question I want to make sure you understand, are you talking about our engineering services revenue, sir?

**P. Jha:** No, the engineers that you employ, I may not have the clarity about the engineers that you deploy for the structural design and other stuff. That's also a significant part which perhaps has only fantastic margin, perhaps the best margin, possibly the best margin of businesses, if I heard you right in the past?

**Aditya Rao:** You are correct sir. So, those businesses currently comprise our structural engineering, building information modeling, and other revenue verticals that we have. There are about four revenue streams in that. Currently that's at about Rs. 60, Rs. 70 crores, we expect that to grow quite well. It is one of the verticals we intend to grow quite quickly. And as you yourself said, the profit margins in that are quite high. And it is structured regular growth that's coming in for those businesses because it's effectively addition of people, customers, and design team, detailing know-how and engineering know-how. So, that's a gradual process. We're comfortable with the path that you're in and it gradually grows, but it will grow and it is going to continue to be high margin sustainably. So, we're happy with what our management team has accomplished in that business over the last 2 years. I'm sure it will continue to grow and scale and it will continue to add pathway to our bottom-line.

- P. Jha:** Thank you. And I must compliment you that whatever you make promises in all your conferences, you keep them. That's a great credibility that you have.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Vikram Suryavanshi for closing comments.
- Vikram Suryavanshi:** We thank the management of Pennar Industries for giving us an opportunity to host the call and taking time out for interaction with the investors. Any closing comments, sir?
- Aditya Rao:** Thank you for the opportunity and glad to have the opportunity to present our quarter and a future outlook to our stakeholders. Thank you so much for all of your support. We will work hard to implement our plans and grow Pennar. Thank you.
- Vikram Suryavanshi:** And thank you all for being on the call.
- Moderator:** Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.