"Interarch Building Products Limited

2QFY25 Earnings Conference Call"

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MODERATOR: **MR. DHRUV JAIN – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Interarch Building Products Limited 2QFY25 Earnings Conference Call hosted by Ambit Capital. 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Dhruv Jain from Ambit Capital. Thank you and over to you, sir.

Dhruv Jain: Hello everyone. Welcome to Interarch Building Products -- Inside today we have with us Mr. Arvind Nanda, Mr. Manish Garg and the CFO and the rest of the team. Thank you and over to you, sir, for opening remarks.

Arvind Nanda: I'm Arvind Nanda here. I'm the Managing Director and Promoter of Interarch Building Products Limited, recently listed. Thank you everybody for joining and first let me wish you a happy Diwali and a great stock market year ahead. I think today it's looking good.

So anyway, to introduce you Interarch Building Product, I think a lot of you may know it because you are old investors relatively. So, Interarch Building Products primarily is into the pre-engineered building space. A pre-engineered building is a little, it's all steel buildings, but it's a little different concept compared to being a steel fabricator or a civil contractor or a builder or EPC company.

What we do is we get involved with our clients more like partners at a very early stage of their conception of the project. So, we are very heavily involved in what kind of buildings do they need, what kind of process buildings, what kind of utilities they have, conveyor systems, how will they install their machineries. But today's industry is very complex in that nature.

It's not a simple shed under which the manufacturing can happen. Manufacturing is at multi-levels, raw material moves, finished goods, conveyor systems, a lot of these plants are pretty heavily automatized, including even warehousing of Amazon, Flipkart, and all these warehousing players like IndoSpace and Welspun, all these players, we work with them extensively. Even their buildings are very, very complex.

So, we get involved with them in the beginning. And as a pre-engineered building company, our first task is to engineer and design the building that they ask us to do. They give us their requirement, but the actual building is designed by us, by our in-house engineers.

We have over 125 engineers employed directly, and they first design and estimate the whole building as to how that building will be done. The overall requirement is the customer, but how it will be done is up to us. So in that sense, every pre-engineered building supplier would have a different output of how that building will be done.

So, a lot depends on how good your engineering and design team is, then only you will get a good output. If you don't design it well, it could get rejected, or it could be too heavy or too much steel usage, and you would be uncompetitive. So that is the first important task for any pre-engineered building, to have an excellent, excellent engineering department, which works on the design and engineering.

Once we get the order, then the design engineering, along with the sales team, works on the value add and how to make the building properly, and then they make a shop drawing and a bill of material. This is then sent to our factories. So we have currently three factories, and fourth has just started last month, and all the parts of the building, the whole building is broken down into transportable parts, as we call them, and they are all manufactured in-house.

Our basic raw material is only a plate or a coil. We do not buy any ready-made sections on the market, but we make all the sections in the factory. So whether it is a column, a beam, secondaries, box columns, star columns, everything is actually manufactured in-house from a plate.

Once these are made, they are all made in a way that they can be bolted together at site. So there are holes at all the ends of the part, then they are put in a trailer after being painted also, and they are taken to the site of the customer when the site is ready to start installing the building. So there, the building starts getting installed in a mechano-set kind of an assembly process, just nut and bolt.

At the site, there is nothing to be done. No cutting, drilling, welding, or even painting. Everything is already ready-made. Each piece is meant for a certain place in the building and that is done by the highly skilled people, our certified builders who are trained by us. They are appointed along with our own project management team, which is at site, to take care of quality, commitment to the client, as well as safety. And they make sure that the building is erected as per the dates and commitment given by us to the client at the site itself.

And all this is done at one lump sum price. So the customer gets a building designed and engineered by us, gets one lump sum price, gets one date when the building will be handed over to him. So it has become more like a capital goods partner with him.

Just like he orders his machinery to make his product in-house, he orders the building to be made for his product and processed. So we are an equal partner, if not a more important partner, because he works with us right in the beginning. And in that sense, we play a very important role. We are considered a very vital partner, not just any other construction company.

And also the advantage to us is that we are also completely industry agnostic. It doesn't matter to us whether you are an Amazon warehouse, you are an Asian paints, Ultratech Cement factory, or a microchip factory that we are doing for Tata's, or like this Tata advanced system building that was inaugurated yesterday by the Prime Minister, that has been done by us in a pre-engineered building. So it could be defense, it could be your machinery manufacturers, it could be all these new age industries like the solar.

We are doing solar panel manufacturing factories for ReNew Power, First Solar, Tata Solar. Recently, we have got an order from Avaada also. So Exide batteries, we have finished. Amara Raja, we have got an order. So we are completely industry agnostic. We've even done a data center and we are hoping to get a very, very big chunk of the data centers coming up in the coming years. We are in touch with all the data center companies. So we are very industry agnostic because we have the capability to design and manufacture and assemble all these buildings at site.

Also, we are building agnostic. To us, it doesn't matter what kind of building do you have. We can convert that building into a pre-engineered building, manufacture it in pieces, and take it to site. And also we are -- geographically, we are agnostic. We don't really care where the building is.

It can be taken anywhere, to Assam, to Kashmir, to Coimbatore, anywhere, to a desert, to the coastal area, and put there. So we have this big advantage over other capital goods companies that we are completely agnostic. And the customer has a big advantage that he gives the whole order to one company.

That company is completely responsible from design engineering to execution. Anything goes wrong, any problem happens, he has to just catch us. He doesn't have to go to five people as was done in traditional steel buildings and everybody blaming each other. So this is what the pre-engineered building really is all about.

Just to bring you to the present day, I think we have done reasonably well in this quarter. As you might all notice that the quantity growth is lesser than our -- value growth is lesser than our quantity growth. That is primarily because of the softening steel prices. So the sale price to the customer goes a little down, while the quantities are up. Quantities, we have done over 17%-18% more than the previous quarter and compared to last year also.

But the value is a little down, it's only 7.5% up. But that is not a worry for us because our margins are decided by quantity, not by value. Because we have like a steel price, costing, everything done, and then a delta added onto that. So that delta remains the same, whether the steel price will be INR20 a kg or INR100 a kg. So for us, it doesn't really matter as far as profitability is concerned. We can make the same profit.

In fact, if the steel prices are going down a little bit, we always gain. But there are older orders which we have or orders we might have taken last month and next month the steel price will be lower, we will benefit in part of our orders. So no worry at all in terms of your sales revenue going up or down. More important is the quantity, which is substantially up. Our production capacities are going up.

Our Andhra plant has added some sales to our September sale, but will be more contributive going forward. We have started our Andhra Pradesh second phase, and at the same time our upgradation of the Uttarakhand plants is also starting. So both these should be in play by next May, June in full production. We are hoping the plants will get done by March or maybe early April and start contributing to production and sales in the coming financial year. The order book is looking good. I think we have given you some details. Again, very top quality customers, warehousing companies, Avaada for their cell and batteries cell plant, so again top class quality. Going forward, the pipeline is excellent. A lot of companies setting up battery plants, manufacturing plants for Apple and Samsung, renewable power. A lot of companies coming up in that along with our traditional warehousing like Welspun and IndoSpace. They are also coming up with huge projects in the coming months.

So I think pipeline stands good. Our capacity is going up, so we can actually start taking in a little bit more orders. We have to restrain our order intake because pre-engineered building, the order book cannot be very long. It's 9 months to 10 months is the maximum a customer will wait for the order to be executed. So to do more a INR1,300 crores order book for 9 or 10 months means that we have to perform. And if we want to increase it which is possible, we have to expand our capacity which we are definitely online to do it.

And I think we will be able to achieve the figures and targets that we have given earlier. This year, we are definitely on track to do a 15% to 20% increase in profitability. The figures that we have given were about 16%, 17%, but I think we will go higher than that by the end of the year. Sales also we are very much on track. Like I said, there will be a mismatch between revenue in crores and the tonnage. So we are concentrating on the tonnage because that brings us the sale and the profitability.

So I think we are very happy with what results we have got till now. And very happy to see that in the next 6 months to 8 months, we do not see any headwinds coming our way because we can have a lot of visibility in our business. If the business is going to slow down, right now it looks like going on full steam. So thank you very much. And I will request Manish Garg to take you forward.

Manish Garg: Thank you, sir. This is Manish Garg here. Thank you for attending this earning call. Taking forward from here on, in fact, our company acts as a proxy to the private capital expenditure. And the demand for our products is directly influenced by how much private companies are investing. And we all know what is happening in the capital outlay in the market and we are one of the fastest growing companies in the organized sector that operates in our pre-engineered building sector.

Now, just to tell you the way forward, apart from what Mr. Nanda has already told you about our future plans in the near future to expand our plants in AP and Kicha to take on the additional capacity. We wish to - we have already locked up land in Gujarat and our future plan will include manufacturing facilities coming up in Kheda, Gujarat as well. Additionally, we also plan to get into some other renewable energy projects as our customers. And the infrastructure and the data centers, that's the sector that we are focusing on. So that is likely to fuel our future growth in terms of the order book.

Coming to the financial highlights for the quarter and for the half year ended September 30th. Our Q2 FY25 revenue for the quarter stood at INR323 crores, up 8.5% on a year-on-year basis. And the business mix of our end user industry is primarily as follows. Industrial and manufacturing contributed about 73% of our total revenue. Infrastructure industry contributed about 25% and other industries contributed about 2% of our total revenue. Our EBITDA for the quarter stood at INR25 crores with a growth of 32% on a year-on-year basis.

Our EBITDA margins also saw an improvement which stood at 7.8%. Profit after tax for the quarter came at INR21 crores, showing a growth of 36% on a year-on-year basis. And our total order book as we speak as on date stands at INR1,303 crores. Some more highlights about our half-year results are as follows. Our revenue stood at INR627crores quarter on a YTD basis with a growth of 6% on a year-on-year basis. And as Mr. Nanda explained, our revenue growth has been 6%, but our volume growth has been more than 17% on a year-on-year basis.

The business mix for the entire half-year contributed about 68% from Industrial and Manufacturing projects, 30% from Infrastructure industry and 2% from other types of Buildings. Our EBITDA for H1 FY25 came at INR52 crores with a growth of 19% on a year-on-year basis. Our EBITDA margins also saw an improvement which stood at 8.3% for the half-year.

And profit after tax came to INR41 crores, this again with a growth of 18%. So, all metrics, there is a double-digit growth on this. And our balance sheet remains as strong as ever. And we uphold a zero-debt status and net cash positive backed by an efficient working capital cycle and solid cash flow generation. Even our cash flows have been very strong in the first half-year. And with this, I would like to conclude the presentation and open the floor for questions and answers. Thank you very much.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Prakash Kapadia from Spark PMS. Please go ahead.

Prakash Kapadia: Yes, thanks for the opportunity. A couple of questions from my end. Well, typically, H2 is better than H1 for us. So, is 40-60 kind of a ratio good enough for us to assume based on our historical execution?

Arvind Nanda: For us in our industry for us, for the last many years we have seen this trend 40-60 in H1 and H2. And we should be able to maintain that.

Prakash Kapadia: Okay. So, that answers your question. And secondly in your opening remarks as well as in the press release you mentioned the current quarter volume growth is around 17.5%. And sales growth is 8.5% and despite that margins are up by 137 bps. So just trying to understand this in more of detail. What happens to this when steel prices go up? So, does it lead to higher sales, but maybe flat or declining EBITDA margins? Because I think from what I understand we have a fixed as well as floating kind of order book in terms of our execution. And also if you could give us some sense, is there a different grade of steel for a warehousing project or a plant or office or hospital? Does that also have an impact, if any on margins those are my question?

Arvind Nanda: Okay your last part first. No we only have one type of steel. This is a special steel, but we use basically three types of steel, which remain the same irrespective of the building. Thicknesses may change, that can happen. But otherwise, it is HR steel 345 MPa for all our columns and beams. Galvanized steel, thickness can change. That also is 275 GSM steel is galvanized and then we have the color-coated roof and wall coils. Again, the thickness can change depending on the requirement. Colors can change. But it doesn't change much with the kind of building. So, it is pretty standard raw material, all available in India that we use.

Now, your other question was that EBITDA margin with changing steel prices. You see, most of the times, changing steel prices doesn't affect our EBITDA. So, if the sales are going up, whether in quantity primarily, that will decide how much we sell, the EBITDA will move up. And the more we go up, the margins improve because we have a lot of operating leverage, which helps us in improving our margins as we increase our sales.

Yes, if the steel prices come down a little bit, then the steel billing to the customer for let's say 100 ton building, if the steel price is less, will be lesser. If it is higher, it will be higher. But the margins are not overall affected, except I would say that to some extent, a lowering steel price coming down gives you increased margins. Because there are orders, let's say I took an order in June or July, if I am shipping it out in September, and my steel has come in September, and the price drops from June in September, I will gain. Some of them which are fixed price, I will gain.

Some of them which are variable prices, I pass it on to the customer. But margin is not affected, even whether they go up or down. But profit can improve if it is going down. And it may go down a little bit if the prices are going up. But it doesn't have overall major difference in our profitability.

Prakash Kapadia: So the right way to think about rising steel price scenarios, there could be some marginal impact in cost of goods sold, but you're saying, there could be some offset by operating leverage due to higher steel prices. Is that the way to relate the margin profile?

Arvind Nanda: Yes. But I mean, there can be a temporary gain. I think in the next quarter, we could have a temporary gain, because the prices going down are from like June, July. So the material starts coming in in September. But it's a marginal gain. Most of our profit depends on the delta we charge over the steel price. That doesn't change much. If the steel price is INR20 a kg, or INR100 a kg, it will have very marginal change in the delta. Maybe just the financing cost. Otherwise, for us, the cost doesn't change. So we charge the same to the customer.

Prakash Kapadia: That's helpful. Thank you and wishing you a very happy Diwali and Happy New Year. Thank you.

Arvind Nanda: Thank you for your wishes.

Moderator: Thank you. The next question is from the line of Pritesh from Lucky Securities. Please go ahead.

Pritesh: Yes, sir. The question is on the order book. So this INR1,300 crores order book, how would it stack up in the same period last year? So what is the growth that you've seen in the order book? Either in value or tonnage, whatever you're comfortable with?

Arvind Nanda: See, from last year, it has grown. I think last year at about the same time, if I'm not mistaken, was about INR1,100 crores. So it keeps improving. You see our order book to a certain extent, we can't just keep taking orders. With Pre-Engineered buildings, the requirement to fulfill the order is also very limited. We can't take an order. Most of the customers, even for the big orders, will want their buildings to be delivered within 9 months, max 10 months.

So I have to match my capacity to whatever I can take. So like last year to this year, our capacity increased. So I can take more orders. We are now on a war footing to increase our capacity. Because orders are there in the market. But they all have a deadline. So if I'm going into the market today for a INR100 crores order, and the customer says, I want it done by March, and I'm already full till March, and I cannot take his order. That is a problem in pre-engineering, because orders are not given 2 to 3 years in advance.

So INR1,300 crores basically translates into about maximum 9 to 10 months of sale. So we have to increase our capacity. Order book will keep increasing. Going forward for many years, we see that the pipeline is very good. The requirements are very large. The new age industry, the size of projects is getting larger. The number of projects are getting larger. So that is not a problem. But more on our ability to absorb more of them as fast as possible. Order book will keep increasing. But it has to match our ability to execute.

Pritesh: Okay. Sir, the other thing is, on the capacity side, this 20,000 ton which has become operational in September, that is sufficient enough for you to at least have necessary capacity for H2? And maybe H1, are you constrained by capacity even now, and you need that Andhra plant to come on stream?

Arvind Nanda: No, for H2, we have sufficient capacity. Even the first quarter of FY 25-26, I would say we have enough. So we are trying to put a new capacity in place by the first quarter of FY '26, so that that gives us the growth going forward also. You see, to just give you an overall picture, each one of our fully integrated plant gives us about INR500 crores of building sales in value. So we have three fully integrated plants, which is two in North and one in Chennai.

And Andhra Pradesh is the fourth one. But right now, not through full capacity. So we would say that today we have about INR1,700 crores of capacity in place with Andhra Phase 1. With Andhra Phase 2 and the upgradation in the North India plant, we should be able to add another INR300-400 crores of capacity, so that from FY 25-26 onwards, we have a capacity of over INR2,000 crores. That is what we are aiming for. But currently, for the next 6 to 9 months, we have enough capacity.

Pritesh: And your initial comment on profitability, 15%, 20%, I should read that the operating profit growth for you will be about 20% for FY '25 based on whatever 15% - 20% volume growth, right? That's how I should read it.

Arvind Nanda: Yes, we have predicted about 16%, but I think we'll exceed it. Our prediction officially still remains about 16%. So to give you an overall figure, like we had got INR86 crores PAT in '24. So we were predicting about INR100 crores PAT in 2025, but it may go up. I'm not too sure.

Pritesh: You're talking about profit number. Okay.

Arvind Nanda: Yes.

Pritesh: And lastly, one question. In your PPT, you have mentioned 10% revenue growth for FY '25. And to the first question, you answered that 40-60 is the revenue mix for H1 and H2. When you do the two maps separately, your PPT says 10% growth, but when you do 40-60, then it actually means 20% revenue growth. So which one is the correct one?

Arvind Nanda: No, we have given INR 630 crores. I think we've got INR636 crores.

Pritesh: So if INR630 crores in first half divided by 0.4, if your top line number of INR1,550 crores, that's like 20% top line growth.

Arvind Nanda: Yes, but I think because of the next 6 months, we will definitely have a drop in revenue, not in production, but revenue because of your lower steel prices. So we are predicting about, but profitability is more on part, whether we go more by profitability, 40-60, revenue can change. We are hoping that it'll cross INR1,400 crores. So revenue will cross about INR1,400 crores. So it'll give you maybe 45-55 in revenue, but profitability should be 40-60. It can vary. That profitability vis-a-vis our revenue can vary because the operating leverage kicks in much more. Even if you see last year, it was like that. So there's a little bit of divergence in that.

Pritesh: Thank you very much, sir. All the best.

Moderator: Thank you. The next question is from the line of Nilesh Saha from Julius bear. Please go ahead.

Nilesh Saha: Just one small follow-up from a margin point of view. So as you were describing, because steel prices fell, your gross margin, I'm comparing Q1 versus Q2, has improved, right? Because you had the advantage of orders that were booked at higher steel prices. But then I see the line items below the gross margin, I can see that sequentially, right, there has been a fair bit of growth, both in terms of absolute and also as a percentage of top line, right? So could you explain what has driven that? Is there any one-offs here, either because of your new plants being set up? Anything that you can shed a bit more light on?

Arvind Nanda: I think, if I can remember correctly, there are a couple of things. One is, of course, the capitalization of Andhra and the newer capital expenditure. And also, I think we had a certain amount of expense which we had to charge on our ESOPs. We had issued ESOPs. So I think that financial charge of maybe INR 2-2.5 crores, I'm not sure which figure, has to be made by us every quarter, even though it's a non-financial charge, but we have to make that.

Manish Garg: Yes, so that number is INR2 crores to INR2.5 crores on account of ESOP provisions.

Arvind Nanda: I think Mr. Bansal can correct me if I'm wrong, or Manish.

Pushpendra Bansal: It's 2.14 exactly.

Nilesh Shah: That will come every quarter till we are provided for that.

Pushpendra Bansal: The quarter will come, this is for two months, the quarter will be INR1 crore per month.

Nilesh Shah: So INR2.5 crores was for two months, right?

Pushpendra Bansal: INR2.1 crores for two months.

Nilesh Shah: INR2.1 crores was for two months, okay. And till what time period, for how many quarters will this ESOP cost accrue to you?

Pushpendra Bansal: Yes, this will be equivalent till the next 10 months. After that, after allotting 50%. So this is for the first year

Nilesh Shah: So for the next 10 months or say, you know, till FY26, you will have...

Manish Garg: Nilesh I will also try and explain. Can you hear me?

Nilesh Shah: Yes, yes.

Manish Garg: So it basically is a function of the vesting. So first year, our ESOP will vest to the extent of about 50%. So there is a higher charge in the first year. So it will be about a crore every month for the next 10 months. And then going forward, it will be much lesser because they will vest at a much lesser rate because a lot is vesting now. So there will be a charge on the ESOP for next four years, but bulk of it is being captured in the first year because of the vesting schedule that we have given for ESOPs.

Nilesh Shah: Okay, okay. And now coming to your other expenses line, right? There also I see that, the sequential growth has been quite sharp, right? From INR54 crores to INR71 crores. Is there any one-off here?

Manish Garg: Mr. Bansal?

Pushpendra Bansal: Not one-off. This is all account of this employee cost because of the increment given this year. Rest of this.

Manish Garg: Employee cost is separate, Mr. Bansal. Employee cost is separate…

Pushpendra Bansal: Not one-off. This is only a revenue, all revenue.

Manish Garg: No, can I... I will try and explain Nilesh on this one also. If you look at, our volumes have gone up significantly, right? And there are a lot of manufacturing and direct production costs and everything that gets captured as other expenses. And therefore, if you look at our volumes have grown by 17% to 18%, right? So it is a function of the volume growth because you have to put all the manufacturing costs. So INR54 crores to INR70 crores is a result of significant increase in the volume produced, okay?

Nilesh Shah: Right, right. Sir, just one more follow-up in the context of this. Earlier you had given a certain margin guidance or view, right? So now that -- and I see that this quarter, your EBITDA margin sequentially has dropped. There is some impact of steel prices as well. For the full year and for next year, do you want to comment on margins basis these new steel prices and the nature of the book that you are seeing?

Arvind Nanda: I think our margin has gone up.

Arvind Nanda: I think if you look at H1 FY24, it was 7.5% and H1 FY25, it is 8.3%. And then Q2...

Nilesh Shah: I am just comparing Q-o-Q, sir. Q1 versus Q2, where in Q1 it was 9.2% and it has come off a bit.

Arvind Nanda: I think is it down, Mr. Bansal? I don't think so.

Pushpendra Bansal: Slightly down because of this...

Manish Garg : Quarter-on-quarter, it is down.

Pushpendra Bansal: Slightly down, Mr. Nilesh, because of -- I have been told earlier because of ESOP, mainly for ESOP.

Pushpendra Bansal: Yes, the INR2 crores is causing that.

Nilesh Shah: So hence, I am just asking that for the full year, like FY'25 even and thereafter, if you could just refresh our understanding of where you expect margins to be, that would help. Thanks.

Arvind Nanda: Yes, I think we are expecting that our -- what we have written in this is that your profit after tax and profit before tax, I think we should be up 15%, as we have mentioned, that we will be able to achieve because of higher growth, higher sales and operating leverage taking in. So that much we should be able to achieve. That we still stand by.

Nilesh Shah: Right, right. Okay, sir. Thank you.

Moderator: Thank you. The next question is from the line of Yashovardhan Banka from Tiger Assets. Please go ahead.

Yashovardhan Banka: Thank you for the opportunity. Sir, can you please advise me of the unit economics as to what is our revenue per kg and cost per kg?

Arvind Nanda: So generally, when we cost a building, there is of course an overall cost of the building in which many factors are considered. Because like I mentioned earlier, we are not selling steel primarily, but a building. So many factors go into it. But if you want to put it in an overall simpler picture, we normally say that 65% of our final sale price without the erection cost, which is a pass-through.

So if my sale price is INR100, normally my steel and the direct steel and that would be what 65%.Yes. Then the conversion cost of that steel into a building or building parts, including engineering and designing and manufacturing and consumers and everything, paint -- is about another 15%.

So that makes it 80%. Right? Then we have 10% overhead and 10% margin. That is what we aim for in our overall building. So we can convert that backward into steel but we do it is like this. And as the sales keep increasing naturally the overhead and the percentage keeps coming down. The overhead don't increase.

In our business, there's a certain built-in overhead which can get taken care of by after a certain level of turnover. And then that starts kicking into the margin completely. So you could have a sales figure beyond a certain point, all 20% coming into the market and increasing the profitability.

Otherwise, it's 65%, 15%, 10% and 10%. That is the normal ratio. You could say that if we are selling buying steel at 65%, we would be selling it at about INR100 to INR110 a kg. But that is a backward working. We don't cost the building like that, but overall we can look at it like that.

Yashovardhan Banka: Got it, sir. So also, what is the current market share?

Arvind Nanda: Our current market share in the organized sector, I think, is the organized sector, as we listed in the CRISIL report was about INR8,000 crores for the organized sector. And so if we are INR12-1,300 crores, we have got about 15% of the organized sector in the top 6-7 companies which constitute that INR8,000 crores.

But it is growing. Our share and the organized market share is growing much faster than the unorganized and the other player sector. Because there are lot more projects in the Grade A client as we call it.

Yashovardhan Banka: Got it, and sir lastly with regards to the land in Gujarat, what is the capacity we are aiming there?

Arvind Nanda: Same. Each one of our integrated plants aims for INR500 crores worth of buildings at current steel prices. So what I would say, say 40,000 tons of building in various combinations and a turnover of about INR500 crores.

Yashovardhan Banka: Great.

Arvind Nanda: That is the aim there also.

Yashovardhan Banka: Okay, and sir update on the, what is the update on the data center bidding in Maharashtra? I think we were waiting for stability for like the elections, I think?

Arvind Nanda: Yes, I know. Suddenly there's a spurt of inquiries on data center. So we have met quite a few. We are bidding for a four or five in Chennai, in Noida, in Bombay. I was in Bombay a couple of weeks ago meeting some of the major. We have suddenly there seems to be a lot more movement on that. Otherwise, we have been marketing and doing a lot of sales work with a lot of companies all over India on data centers.

So suddenly there seems to be a little bit more movement. So we are hoping to finalize a data center or two within the next couple of months.

Yashovardhan Banka: Got it, sir.

Manish Garg: There should be a whole spurt of it, hopefully.

Yashovardhan Banka: Okay. Thank you so much sir.

Moderator: The next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Thanks for the opportunity, sir. Sir, I have two questions. First, sir, you talked about how is the ASP per project has been moving, if it's moving up and how should we see this going forward as larger projects get built into our country? So how does it impact, Interarch from a margins or a revenue standpoint? Any thoughts there that would be very helpful sir.

Arvind Nanda: You see normally, the margins that we work out are on the basis of a certain cost estimates. So of course, there are certain additional costs in larger projects, in terms of execution at site, safety standards that they want, which are in addition to everything, but that cost is built in. But we also feel that when we do larger projects, we get a lot of operational leverage in that, if I were to say so.

Our turnover goes up. The cost of doing INR100 crores project is in effect internally not 10 times of a INR10 crores project. So there are certain economies which do happen when we do large projects. But also on the other side, sometimes the large projects are very competitive. And so you also might have to not get the same margin as you get in a small medium. So it's a very market dynamic kind of situation where you cannot predetermine that this is what I want.

This is what I will get in a large or this is what I'll get in a medium. So of course, we try to get, but sometimes we feel that this will -- maybe at a lower margin also, we will make a higher net profit, with the easier building to produce or easier building to erect and faster. So there are many point, many factors in this dynamics which goes in.

But overall, if you were to ask me, I think we make more money net in larger projects than in smaller one.

Dhruv Jain: Got it, sir. And sir, if you could just throw some data around the volumes that you've done for this quarter and the last quarter and how it has moved on a Y-o-Y basis? Thank you so much.

Arvind Nanda: Yes Manish, do you have the figures with you?

Manish Garg: I had them somewhere. I think.

Arvind Nanda : Yes.

Manish Garg: The volumes that we have done in this quarter on a sequential basis are 17% up from 22 to 26. So to be precise, let me give you the volumes in exact terms. For the September half, the total quantity sold was 48,868 tons as compared to 44,382 in the last financial year half, which is a growth of 10.1%. And if you compare only the quarter – quarter two of September '24, we sold about 26,274 as compared to 22,337. Now that's a growth of 17.6% in volume. So that's the volume growth.

Dhruv Jain: And sir, just one question on utilization. So, currently you would be operating at closer to about 80%-85% of your usable capacity. Is that number correct?

Manish Garg: Yes, usable capacity, 80%-85%. That's correct. Usable by itself is 85%. So like that.

Dhruv Jain: Got it. Thank you so much. I'll get back in the queue.

Moderator: Thank you. The next question is from the line of Shreyans Jain from Electrum Capital. Please go ahead.

Shreyans Jain: Good afternoon. Congratulations on a good set of numbers. Can you explain the working capital cycle of your business?

Arvind Nanda: Hi Manish, can you answer?

Manish Garg: Yes, please. I will take this question, sir. So, the working capital cycle for us, sir, is made up of receivables, inventories on one side and the creditors and the other things on the other side. So, we have been managing at less than 30 days. In fact, for this quarter itself, it was 14 days and 22 days was the last quarter. The explanation is that there is about 45 to 50 days of trade receivables.

Then there are about 45 days of inventory. And on the other side, there is about 40 days of creditors and then about 45 days of customer advances. So, a balance of that leaves us with about 14 to 25 days of the net working capital. So, that's how our working capital cycles are managed. And we are very, very careful about the payment terms and the kind of customers that we work for.

And we are very, very strict on the collections as per the contracted terms. And that is why in a business like ours, we can manage with about 20 to 25 days average net working capital.

Arvind Nanda: Well, I think we also need to add that we are very, very strict on our payment terms with our customers. We are also very strict with the kind of customers we deal with and make sure that our payments are well on time. And creditors also, even with steel companies, because we deal with them very well. And I mean, we get some credit from them also, which is rare in this industry.

And stocks also, we are generally very careful. So, we are always being very careful on our working capital requirements as a company, as has been a part of our DNA infact.

Shreyans Jain: Yes. Got it. And the second question was that only, where are you sourcing your steel from? So, which companies do you buy steel from?

Arvind Nanda: We buy from all the majors. Tata Steel, Jindal, JSPL, JSW, SAIL, AMNS. Then we buy the roofing and cladding. Steel is separate. It's a special coated steel that we normally buy from Tata BlueScope. So, these are the main major companies that we buy all our steels from.

Shreyans Jain: You buy from them directly?

Arvind Nanda: Yes. Absolutely.

Shreyans Jain: Okay. Got it. And the next question is, you mentioned the contracts being mixed and floating rate on the steel prices. So, what is the mix in Q2 or H1 revenue? And what is the mix in your order book?

Arvind Nanda: Well, it keeps changing. Currently, I would say, maybe just one third are variable, maybe less than a third. So, when steel prices are more and more stable, then the customer doesn't want to get into the hassle of changing steel prices. So, they've been pretty stable in the last one, one and a half years.

So, a lot of the customers insisted on this and about two-thirds are on a fixed price. But for us, it was a beneficial thing because the way -- they went down gradually, it's not that they've gone down dramatically, but every drop has been a gain for us since two-thirds of our projects were fixed. So, currently, it is like that.

Maybe currently in the order book, it is 75% fixed and 25% variable.

Shreyans Jain: And is there a margin difference between both?

Arvind Nanda: No. When you are negotiating, you try to negotiate. See normally, a customer would get a better price if he was to give us a variable pricing because then he's taking the risk of steel pricing. When we do fixed, then we are taking a certain risk. But we try to take a calculated risk in terms of what is happening in the market.

How much can we sort of -- get a gauge from the supplier, and what is happening. And then, of course in the end, we have to compete. It's not only our wish that works. We have to also compete with other players. So, I think it is more of a competitive environment that lets us decide. If we feel it's too risky, it's a 12-month project and the steel prices are very well, we may or may not take it if the customer insists.

We try to limit our risks, but I think it's a job-to-job basis rather than one policy that we can take overall.

Shreyans Jain: Got it, sir. Thank you. And my last question is...

Moderator: Sorry to interrupt, sir. Could you please...

Shreyans Jain: Yes, I'll get back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Hello. Yes. Thank you for the opportunity. Sir just on the order book side, I understand that we'll see the prices of steel as a variant on the numerator side of things. So, if I get it right, this order book of INR1,303 crores, what would be the metric ton equivalent of this order book, if you could share the number?

Arvind Nanda: Manish, do you have the figure?

Manish Garg: I will take this question, sir. So, before I tell you the metric ton approximate, let me tell you the mix of INR1,303 crores would also include the erection and commissioning as part of the order value of INR1,303 crores. So, that's one. Then it also includes what we call the buyouts. So, that also is included as part of the project cost.

So, INR1,303 crores order book, which also includes all other transportation, logistics, it's all in cost, should be approximately a tonnage of about 80,000-85,000 tons.

Vignesh Iyer: Okay. This should be 80,000-85,000 tons. And you are saying that the ideal timeline for booking the revenue is 9-10 months, right?

Manish Garg: That is correct, sir. That is correct.

Vignesh Iyer: Okay. Also, now again, on the EBITDA side of it, wouldn't EBITDA per metric ton would be a better way to look at it and understand it as compared to an absolute figure?

Arvind Nanda: On a per ton basis?

Vignesh Iyer: Yes. I mean, I heard other analysts asking you for what would be the margins. I mean, as a percentage margin, would keep on changing when the steel price changes, right? So, I'm asking, can the management give an internal estimate of the number of EBITDA per metric ton, which would more or less will be constant irrespective of steel prices, and that will help us understand the number side better, right?

Arvind Nanda: Yes. No, no, you are right. But sometimes it is not totally possible for us to work on that basis. But Yes, I think we are aiming, ultimately we are aiming that we should make a 10% EBITDA on the thing. And we are very hopeful that by Q4, by the end of '26, we should be aiming for that. I think we have touched 9%. We are hoping that -- I mean, that is the kind of EBITDA we are making.

It also depends on the turnover, but the kind of turnover we are doing, we should be able to make 9% to 10% going forward. That's our aim. But we can't fix for every job. It's very difficult to fix for every job on a EBITDA basis. Like I said, also, it's a competitive environment. Sometimes you have to take even a large order at a lower price. Sometimes you get orders at good prices.

So, it's balancing out everything, making sure that you fulfil your capacity. If we work to full capacity, then I think our margins go up. So, that is what we are trying, that we should make at least 9% EBITDA going forward. Okay.

Vignesh Iyer: So, when you say work at full capacity, I mean, is it possible for the company at any point of time to work at 100% capacity or 85%-90% is peak utilization that the company can achieve?

Arvind Nanda: No, we can go up to 100%. But it also goes with a different mix of buildings, different kinds of items. That's why we say 85%-90%. For the tonnage, let us say if I can do a thousand tons in a certain plant in a month, that thousand tons also depends on the kind of building I'm doing. It could be 900 tons for a building doing the same work or it could be 1,100 tons doing exactly the same work.

So, the production could come out 900, 1,000 or 1,100 depending on the building. So, that's why the capacity in tonnage can change. But Yes, technically, we are and we can work at 100% of the factory capacity. Tonnage, if I say 100,000, it could be 95 or it could be even 105 depending on the kind of building I get.

It is possible. What we do is we take a target that moment we touch 85-90, we must start providing for new facility because we'll soon touch 100 and then we will not be able to take orders beyond that level. Otherwise, yes, it is technically feasible to do 95%-100%.

Vignesh Iyer: Okay. Got it Sir.

Arvind Nanda: We call it utilizable.

Vignesh Iyer: Utilizable level. Right? Got it. Got clarity on this. Thank you, sir, and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Disha Agrawal from Niveshaay. Please go ahead.

Disha Agrawal: Yes. So, the company is going to enter into railway sector soon, right? So, don't you see a risk in entering the sector since it had a history of delayed payment cycles also? So, won't it stretch the working capital?

Arvind Nanda: I'm sorry. I don't think we're dealing with the railway sector at all. Maybe you have looked at Pennar, one of our competitors. They do a lot of work with the railways, some components. No, actually, we don't deal with the government at all. If we are doing any government project, it is through a private sector player, like we did the Delhi Airport through GMR.

We have done an ONGC project through L&T. We have done a railway coach factory in Jhansi through URC. So, while we do government projects, but we do not do work with them directly at all in any sector, including railways.

Disha Agrawal: Okay. And so, what is the utilisable capacity right now and how much is the rate of utilisation right now?

Arvind Nanda: Utilisable capacity before the Andhra plant was 100,000 tons, which more or less was fully utilised by March-April of 2024. Sorry, it was 120,000 tons utilisable, out of which 100,000 was utilised by March. So, we had 15,000-20,000 space over that. And now, we've added another 20,000 in Andhra Phase II, which will gradually get fully utilisable.

But right now, I would say it is at about 30% of that. So, right now, our utilisable capacity would be about 127,000 -128,000 tons. And this year, we are hoping to do approximately, I think, maybe 110,000 tons, if I'm not mistaken, as a capacity utilisation, 110,000-115,000 tons. We have 127,000 tons.

Disha Agrawal: Yes, and what is the status of capex?

Arvind Nanda: So, we are spending, we are doing capex in Andhra, which was a part of the IPO also. The first phase was done with our own money. That all finished by August. A plant opened in September. Now, additional capex of approximately INR55 crores will be spent on Andhra Phase II, where the work has started.

And in the north, in expansion in both our plants, to add another 30,000-40,000 tons of utilisable capacity. So, we are going to be spending approximately INR55 crores, maybe till March or April, in both these plants. That is the current plan.

Disha Agrawal: Okay, okay. All right.

Moderator: Thank you.

Arvind Nanda: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we have reached the end of our Q&A session. I now hand the conference over to the management for closing comments.

Arvind Nanda: Thank you very much, everybody. Thank you for taking out the time during the festival season to join our call. We hope we have managed to put some light to your queries, and we made sense, and we have been able to explain to you our sector. But any of you are most welcome to call us directly and have any queries, anytime, we are completely open on this. You can take our number from SGA. A lot of you are already invested into our company.

Thank you very much for that. But we are completely open at any time for questions, any queries you may have. Anytime you want to come and meet us, you can just call and come. Anytime you want us to come to Bombay and meet you, we'll be very happy. We are completely open to our investors at any time. Thank you very much for joining. Happy Diwali and a great year.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.