



Earnings Conference Call

Q3 FY2015

February 2, 2015

Management:

Mr. N R Ganti, Director

Mr. Vijay Kumar, Executive Director & CFO

Moderator: Ladies and Gentlemen, good day and welcome to the Pitti Laminations Q3 FY2015 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. Joining us today on this call are Mr. N R Ganti – Director and Mr. Vijay Kumar – Executive Director and CFO.

Before we begin, I would like to mention that some of the statements made in today's call may be forward looking in nature and may involve risk and uncertainties. For a list of such considerations, please refer to the earnings presentation. With this, I would now like to hand the conference over to Mr. Ganti. Thank you and over to you, Sir.

N R Ganti: Thank you, good evening and welcome everyone to our Q3 FY2015 Earnings Conference Call. I have with me on the call today Mr. Vijay Kumar – Executive Director and CFO. We hope that you have had a chance to review our results presentation which is also available on our website. I would like to start by providing an overview of this quarter's financials followed by highlights of our key strategic and operational performance. We will then open the call for an interactive Q & A session.

India's index of industrial production recorded its highest growth in past five months of 3.8% in November 2014. IIP showed significant recovery from the sharpest pace of decline in three years at (4.2)% recorded in October 2014. The manufacturing sector's output growth rebounded to 3% in November 2014 snapping the largest decline in the last 5.5 years at 7.4% recorded in October 2014. Other sectoral indices such as, mining and electricity generation also recorded a strong growth over same period last year. The mining sector output increased 3.4% and electricity generation surged at 10% in November 2014. As per used base classification, the output of capital goods registered a growth of 6.5% in November 2014 compared to last year. This recovery in IIP was primarily driven by the improvement in the infrastructure sector, pick up in exports, and increase in other production. Industry output is expected to continue to improve going forward driven by increased investment on account of lowering of interest rates by RBI.

In the context of improved economic environment we registered a robust volume growth of 85.1% to 5,956 metric tons compared to same period last year. This strong growth in volumes was driven by steady domestic demand and improvement in

export volumes. Domestic volumes for the quarter were 3,818 metric tons, an increase of 38.3% y-o-y and 25.5% sequentially. Export volume for the quarter was 2,138 metric tons, an increase of 369.3% y-o-y and 41.0% q-o-q. During the quarter, the Company sold 127 stator frames compared to 22 in the same period last year.

Led by the strong volume growth during the quarter, our revenue increased by 91.6% y-o-y and 30.7% sequentially to reach Rs. 934 million. Domestic sales for the quarter was Rs. 457 million, an increase of 28.0% compared to the same period last year and 13.2% on sequential basis. Export sales for the quarter increased by 332.6% y-o-y and 51.5% q-o-q to Rs. 465 million. This significant improvement in the revenue for the quarter was due to better volumes, primarily exports which have been temporarily postponed for the past few quarters. Our strong order book currently provides us the confidence that this demand profile will continue going forward and the top line is expected to benefit from it.

Our EBITDA for the quarter increased by 144.7% on y-o-y basis and 34.0% on sequential basis to Rs. 125 million. This robust growth was driven by improvements in the top line and cost synergies achieved due to operation at higher capacity levels. EBITDA margin for the quarter was 13.3% indicating improvement of 289 basis points compared to the same period last year and 39 basis points on a sequential basis.

Financial expenses in Q3 FY2015 were Rs. 31 million, an increase of 35.6% y-o-y and 8.9% sequentially. However as a percentage of sales, it declined to 3.3% compared to 4.6% in Q3 FY2014 and 3.9% in Q2 FY2015. This increase in absolute terms was primarily due to higher working capital requirement driven by increased volumes.

PAT for the quarter was Rs. 29 million compared to Rs. 3 million in the same period last quarter and Rs. 10 million in Q2 FY2015. This remarkable improvement in the PAT was driven by higher operating profit. We would like to bring to your notice that PAT for the quarter includes an impact of higher depreciation on account of implementation of the new Companies Act and is not comparable on y-o-y basis. PAT margin for the quarter was 3.1%, an increase of 241 basis points compared to the same period last year and 174 basis points sequentially.

We are very comfortable with our current capital structure. As of 31st December 2014, our total debt was Rs. 1,270 million and cash and cash equivalents of Rs. 136 million resulting in a net debt position of Rs. 1,133 million. The overall increase in

total debt was driven by higher working capital requirement to support increased volume demand. The net worth of the Company was Rs. 1,159 million at the end of the quarter. As of December 31st, 2014 we had a conservative leverage profile with a total debt equity of 1.1x and net debt to LTM EBITDA of 3.3x.

In the board meeting held on 28th January, 2015 our Board of Directors declared the interim dividend. This announcement is in line with management's ongoing commitment to enhance shareholders value. This also indicates our confidence and conviction in the future growth potential of the Company.

The Board of the Directors of the company also approved the subdivision of nominal value of equity share from face value of Rs. 10/- (Rupees ten only) to face value of Rs. 5/- (Rupees five only) subject to the consent of members to be obtained by way of postal ballot.

We would also like to inform you that the Company started commercial production from its new manufacturing unit at Pune, Maharashtra on 17th December 2014. We shifted part of the capacity from Hyderabad to the new plant at Pune with the objective to strengthen our competitive advantage. This initiative will enable us to get closer to raw material vendors and customers and will result in reduction of cost of transportation.

We have recently been conferred with the 'Award for Special Contribution – Large Enterprises' by Engineering Export Promotion Council (EEPC). We were honoured with the award in recognition of our outstanding contribution to engineering exports during the year 2012-2013.

Pitti Laminations has been able to deliver in line with the expectation of our shareholders. Our long-standing customer relationship and unique positioning has helped us to capitalize and benefit from any arising opportunities in the sector. Our order book continues to remain strong and indicates that we would be able to maintain the growth trajectory. Furthermore, our Pune plant will operate at optimal level from next quarter and we anticipate increased demand and cost efficiency from this plant. This is an exciting phase for Pitti Laminations and we believe that we are at an inflection point. We look forward to an exciting phase of growth in the coming years.

We would like to open now the call for question-and-answer session. Thank you.

- Moderator:** Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Dixit Doshi of Whitestone Financial Advisors. Please go ahead.
- Dixit Doshi:** Sir, can you tell us the current order book position?
- Vijay Kumar:** We have signed three years long-term contract for exports, worth more than Rs. 600 crores.
- Dixit Doshi:** Rs. 600 crores?
- Vijay Kumar:** Yes, for three calendar years. And for domestic, we normally get orders a quarter in advance. In domestic sales also we have good volumes.
- Dixit Doshi:** Okay. And in this export order which you said three years contract, is it with GE only?
- Vijay Kumar:** Yes, GE group companies.
- Dixit Doshi:** And any other players from where we can get the orders in export market apart from GE?
- Vijay Kumar:** We also have orders from some European and Australian companies, but volumes are not significant.
- Dixit Doshi:** Okay. Sir in terms of shifting of the plant, after shifting this 15,000 MT plant to Pune, is there any more capacity we are planning to shift from Hyderabad to Pune?
- Vijay Kumar:** We are shifting the existing capacity from Hyderabad to Pune. It will not create any additional capacity.
- Dixit Doshi:** No, I mean you shifted 15,000 MT capacity till date, right?
- Vijay Kumar:** No, we are planning to shift only 12,000 MT.
- Dixit Doshi:** Okay. So no more shifting from now onwards?
- Vijay Kumar:** We have not shifted entire machinery, we are shifting phase-wise. We cannot undertake the shifting by disturbing the sales and production, so we are shifting in

phases. Some of the machines have already moved and some more machines will move by this month.

Dixit Doshi: Okay. So we will have post this restructuring we will have 20,000 MT capacity at Hyderabad?

Vijay Kumar: Yes, more or less.

Dixit Doshi: Okay. So that 20,000 MT will be at one location only or two locations in Hyderabad?

Vijay Kumar: Two plants.

Dixit Doshi: Okay. Two plants will continue.

Vijay Kumar: Yes, one plant caters to majority of export orders only and the other plant mainly focuses on the domestic orders, tools and other development.

Dixit Doshi: Okay. And sir in terms of domestic orders what we get, is there a contribution of GE in the domestic order book only or we have only exports orders from GE?

Vijay Kumar: We only have exports orders from GE. At domestic level we are engaged with other major clients like Siemens, ABB, BHEL, Cummins, etc.

Moderator: Okay. And sir in your last annual report you mentioned that since India will become oversupplied in silicon steel so you will be sourcing your raw materials from the domestic market only. So how is the position now? Previously you were sourcing 50-50 from domestic and imports.

Vijay Kumar: Now also we are sourcing 50-50. China steel has recently started production in Gujarat, they are yet to start full phase commercial production, and then our customers have to visit the plant and approve the facility. Although, our customers are already importing from China steel but they have to visit the country specific locations and approve it. So once commercial production starts in full swing then our customers will visit and approve. Post that, we will slowly move from the imports to domestic sourcing.

Dixit Doshi: Okay. It will take may be 1-1.5 year?

Vijay Kumar: Yes.

- Moderator:** Thank you. Our next question is from Dharmesh Kant of IndiaNivesh Securities. Please go ahead.
- Dharmesh Kant:** Sir, could you guide us on what is the contribution of GE to the topline in this quarter and going forward how do you see the customers' centricity getting diversified apart from GE?
- Vijay Kumar:** As we told earlier, maybe it looks only GE but we are supplying to various GE group companies with different end use as well as product use.
- Dharmesh Kant:** So what is our percentage right now of GE to the total topline I mean the GE group companies?
- Vijay Kumar:** GE Group companies accounts for around 40% of the overall sales.
- Moderator:** Thank you. Next question is from Nidhi Agarwal of Sharekhan. Please go ahead.
- Nidhi Agarwal:** Could you highlight your top customer contribution to sale?
- Vijay Kumar:** Siemens, ABB, Cummins, CGT, GE.
- Nidhi Agarwal:** And how much does the top five customers cumulatively contributing to sales?
- Vijay Kumar:** Around 70%.
- Nidhi Agarwal:** What is the total market size globally for your products and how are you placed in terms of market share there?
- N R Ganti:** Total market size globally is huge, and we believe opportunities for us to grow are immense. .
- Nidhi Agarwal:** Okay. So with the current capacity what is the revenue potential we can reach in next say 2 to 3 years?
- N R Ganti:** Approximately Rs.600 crores for a representative product mix.
- Vijay Kumar:** Sometimes some customers will supply the raw material and they will ask on job-work basis. In that case, top line may not increase but bottom line will be impacted. So we look at the margins.

- Nidhi Agarwal:** Okay. And how is current and next year looking in terms of revenue guidance?
- N R Ganti:** Broadly we did touch upon that in my opening statement. Next year we are quite bullish, barring some unforeseen circumstances. The economy has picked up, and we think globally things are looking better at least for our product. So given that, we should be growing at a good rate.
- Nidhi Agarwal:** Okay. And margins are sustainable this margins what you have achieved in Q3?
- N R Ganti:** EBITDA, our internal target is to achieve 15% margins. This quarter we have posted 13 odd % margin.
- Nidhi Agarwal:** Okay. And sir what is the CAPEX requirement for the year?
- N R Ganti:** We are not contemplating any significant CAPEX in near term.
- Nidhi Agarwal:** For the next two-three year?
- Vijay Kumar:** Last two to three years, we invested a lot on the machining and other capacities. Maybe going forward we may invest Rs. 10-15 crores next year for some replacement of old machines. But we are not planning any huge CAPEX for any expansion. On routine basis every year we spend Rs. 10-15 crores for replacement and modernization.
- Moderator:** Thank you. Our next question is from Ipshita Roy of Moneybee. Please go ahead.
- Ipshita Roy:** Sir, firstly any update on open offer?
- N R Ganti:** There is not much to add Ipshita since we last spoke. The matter is still with Honourable Supreme Court. We have submitted our reply to the SEBI's queries on 6th of January and now Supreme Court has to give a date, for both the parties to argue their case.
- Ipshita Roy:** Alright. But as far as I remember, wasn't a date given to us, end of January or something?
- N R Ganti:** Yes, 6th January.

- Vijay Kumar:** 6th January we have submitted our reply. So as on date we have not heard anything from the Supreme Court about the next hearing date. Normally they give at least three to four weeks in advance information. We are waiting for the date.
- Ipshita Roy:** Alright, okay. And sir I was just looking at our raw material cost (RMC), there is a lot of fluctuation and I think this quarter it is around 67% compared to around 61% previously. So what can be the sustainable RMC that we want or is there some kind of an adjustment in this quarter?
- Vijay Kumar:** No adjustments, it all depends upon the combination of the product as Mr. Ganti said. It varies as per complexity of the product. And in this quarter dollar has gone up to Rs. 63.80; so in that way imported raw material cost has increased. So based on previous quarter mostly we have closed at around 60-61% .
- Ipshita Roy:** Okay. But on an average we can assume it to be around 61-63%, right?
- Vijay Kumar:** No, as I said it all depends upon the customer base, it will vary between 62-65%.
- Ipshita Roy:** Okay. And sir like how are we seeing the demand pick up because I think the industry has moved pretty well and our exports also have shown decent growth. How is the domestic market looking, is it showing signs of improvement or do you still feel that there will be a quarter's lag?
- Vijay Kumar:** This quarter domestic demand looks well and next year we are very positive because all sectors are now recovering.
- Ipshita Roy:** Okay, alright. And I think last concall we had mentioned something about smaller machines and smaller stators, so there was one particular order. So any update on that?
- Vijay Kumar:** Because of sudden spurt in the product requirement and shifting of the machines to Pune, we are now concentrating to meet the current customer demand and maybe after couple of quarters we will focus on that.
- Ipshita Roy:** Okay. So as of now I think we have enough orders in hand so we are right now not concentrating on those smaller laminates?
- Vijay Kumar:** Right.

Moderator: Thank you. Our next question is from the line of Nidhi Agarwal of Sharekhan. Please go ahead.

Nidhi Agarwal: What is the revenue breakup between exports and domestic this quarter and nine months?

Vijay Kumar: Domestic revenue is Rs. 51.62 crores, export revenue is Rs. 46.50 crores for the quarter. Overall net revenue for the quarter is Rs. 93.4 crore.

For nine months, overall net revenue is Rs. 237 crores, out of that domestic revenue is Rs. 146 crores, export is Rs. 105 crores.

Moderator: Thank you. Our next question is from Jaineel Jhaveri of JNJ Holding.

Jaineel Jhaveri: I just wanted to know, for the next quarter are we expecting a similar number in terms of sales?

N R Ganti: Yes.

Jaineel Jhaveri: Okay. So what would it be in terms of tonnage for the last quarter of the year?

Vijay Kumar: Same numbers, we have done around 5,956 MT, close to 6,000 tons but including job work, same number we are expecting for current quarter also, maybe +/-5%.

Jaineel Jhaveri: And one more question was for the next year is there a CAPEX that we are anticipating?

N R Ganti: Rs. 10 - 15 crores every year will be there for some replacements and upgradation of technology, not more than that. So we have not planned for anything significant.

Jaineel Jhaveri: Okay. And sir do we have a said dividend policy? And if so, what would that be?

N R Ganti: We are yet to formulate one but, we are seriously considering it. Our intent is of course to pay dividend. But as a standard policy we are yet to take a view.

Jaineel Jhaveri: Because I mean the interim dividend was a very good surprise for the shareholders.

N R Ganti: Yes, this is our intent to let shareholders know, that we are determined and would strive to enhance shareholders' value.

- Jaineel Jhaveri:** Sir that would be really great. I mean at least even if whatever the profits, if it is a bad year we understand that profits are going to be less, in a good year the profits are going to be more but it will be really great if you could give a number in terms of the profit, even if it is 10%, 20% whatever you guys decide.
- N R Ganti:** We are working in it.
- Jaineel Jhaveri:** Okay, that's awesome. Sir a couple of more questions about the product line, so typically our products go into gen sets right, the stators?
- Vijay Kumar:** Any industrial motor, power motor.
- Jaineel Jhaveri:** Okay. So typically what is the end use of our product, I mean where do they go into?
- Vijay Kumar:** Power sector, industrial motor, railway traction motors, etc.
- Jaineel Jhaveri:** Okay. And this would be part of the alternator, right?
- Vijay Kumar:** Yes.
- Jaineel Jhaveri:** Are there any investor meets that you all are planning maybe coming into Bombay or something like that?
- N R Ganti:** No, not as of now, you can get in touch with Churchgate Partners, I am sure they will let you know.
- Vijay Kumar:** Churchgate Partners is our investor relations advisor. You can touch base with them and they will let you know whenever we plan our visit to Mumbai.
- Moderator:** Thank you. Our next question is from Dixit Doshi of White Stone. Please go ahead.
- Dixit Doshi:** Can you tell us the EBITDA margin in domestic market and the export market?
- Vijay Kumar:** We do not disclose the break-up.
- Dixit Doshi:** Okay. But you have EBITDA margin in export much higher than compared to the domestic market, right?
- Vijay Kumar:** Marginally higher, not much.

- Moderator:** Thank you. Our next question is from Harsh Shah of Ventura Securities. Please go ahead.
- Harsh Shah:** Sir only one question, with the potential revenue from existing capacity being around Rs. 600 crores as you said and not any huge CAPEX in near future, so can we achieve the guidance of 1,000 crores top line in next two to three years?
- N R Ganti:** We said there is no major CAPEX at this point in time, two years is a long time. So basically we are also looking at a couple of other initiatives, we will come to you with a detail plan as to how we plan to achieve a 1,000 crores.
- Harsh Shah:** Okay. So is it possible in next two three years?
- N R Ganti:** Yes, we plan to do it in the next three financial years.
- Moderator:** Thank you. Our next question is from Bhupendra Tiwari of ICICI Securities. Please go ahead.
- Bhupendra Tiwari:** Actually I joined in a bid late, just wanted your overall view of what is the kind of top line growth that we are looking for over the next two years specifically? And how would the margin expansion kick in if the exports segment continues to grow as it has been compared to the domestic which has been muted. So what is the kind of margins that you would like to end on with maybe two years down the line?
- N R Ganti:** We are shooting for a 15% EBITDA margins. Various measures such as product optimisation, rationalisation of internal processes, optimal capacity utilisation etc are constantly reviewed.
- Bhupendra Tiwari:** So actually I heard that your target of achieving Rs. 1,000 crores over the next two three years, so that would be accumulative sales that you are looking to?
- N R Ganti:** Next three years.
- Bhupendra Tiwari:** Next three years cumulative sales or are we talking about standalone sales post three years?
- N R Ganti:** An annual sales target of Rs.1000 crores in three financial years from now. Actually we are looking at couple of other initiatives to reach there besides the organic growth and newer opportunities around the current product mix.

- Bhupendra Tiwari:** Okay. And sir maybe I actually caught it late, so I just wanted to understand what about the open offer and how would the court ruling effect on it?
- N R Ganti:** The matter is resting with Honourable Supreme Court.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the floor back to management for closing remarks.
- N R Ganti:** Thank you ladies and gentlemen for your keen understanding and interest in the company. We hope that we will catch up again in next quarter. Thank you and have a great day. Bye.
- Vijay Kumar:** Thank you very much.
- Moderator:** Thank you. On behalf of Pitti Laminations Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability

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