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Earnings Conference Call

Q1 FY2018

August 18, 2017

Management:

Mr. N R Ganti, Director

Mr. N. K. Khandelwal, Chief Financial Officer

Moderator: Good day, Ladies and Gentlemen. And welcome to the Q1 FY2018 Earnings Conference Call of Pitti Laminations Limited. 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. Nand Kishore Khandelwal – CFO.

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

Mr. Ganti: Thank you. Good evening and welcome everyone to our Q1 FY2018 Earnings Conference Call. I have with me on the call today Mr. N. K. Khandelwal – CFO. Mr. Akshay Pitti, who was to join us, unfortunately went into another important meeting. 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 the prevailing macroeconomic scenario, followed by performance of the quarter, including highlights of our key strategic and operational performance. We will then open the call for an interactive Q&A session.

During June 2017, index of industrial production contracted by 0.1% on year-on-year basis, mainly driven by 6.8% contraction in capital goods. However, we expect that a good monsoon and the 7th Pay Commission pay out; coupled with restocking of inventories post GST will boost industrial output in the near-term.

Moving to our performance for the quarter, we recorded a volume growth of 15.1% to 4,895 metric tonnes compared to same period last year. This growth was driven by robust performance of overall business. Domestic volume for the quarter was 3,955 metric tonnes, an increase of 7.2% year-on-year,while export volumes surged by 66.4% to 940 metric tonnes compared to the same period last year. Demand for our stator frames also experienced robust growth with 440 units in Q1 FY2018, compared to 36 units in Q1 FY2017. As a result of the growth in domestic volume, coupled with better price realization, our revenue for the quarter increased by 58.7% year-on-year to Rs. 92.1 crores. Delivery of value added products to GE India and Indian Railways project also contributed meaningfully to the revenue growth during the quarter.

Of the total sales, domestic sales accounted for 70% of the total sales and remaining 30% was contributed by exports. Domestic sales for the quarter improved by 68.7% year-on-year to Rs. 64.2 crores. Export sales for the quarter was Rs. 27.2 crores, an increase of 40.5% compared to the same period last year. The other operating income accounted Rs. 0.7 crores.

Our EBITDA for the quarter increased by 44.4% to Rs. 12.5 crores, compared to Rs. 8.6 crores in Q1 FY2017. EBITDA for the quarter improved significantly driven by combination of factors such as better product mix, resulting in improved price realization of the domestic business and reduction in employee cost. In Q1 FY2018 employee cost was Rs. 8.8 crores, 8.8% of total net income from operations versus 14.9% in Q1 FY2017. Q1 FY2017 employees cost includes retrenchment compensation of Rs. 1.5 crores. EBITDA margin for the quarter was 13.5% and PAT for the quarter was Rs. 2.5 crores, indicating an increase of 292% in the same period last year. PAT margin in the quarter was 2.7%.

Moving to our leverage profile, we are very comfortable with our current capital structure. As of 30th June 2017, our total debt was Rs. 223 crores, which included Rs. 67.9 crores of long-term debt and Rs. 155 crores of short-term debt. Cash and cash equivalents for the quarter was Rs. 14.5 crores, resulting in a net debt position of Rs. 208.5 crores. Net worth of the company was Rs. 115.1 crores at the end of the quarter. As of June 30th 2017, we had a conservative leverage profile, the total debt to equity ratio of 1.21x.

We would like to highlight that the commercial delivery of GE India for Indian Railway project, which we started during Q4 FY2017, have gained momentum during the quarter and expected to contribute significantly in these fiscal years. Our Plant 4 set up at Hyderabad with machining capabilities for Gamesa and

Siemens orders is completed. We have successfully completed trail production and commercial production started for this plant on 12th August 2017.

Furthermore, as mentioned earlier, our plans to shift Pune operation to Aurangabad is expected to start operation by Q3 FY2018. The facility will have both laminations and machining capabilities. Moreover, with the view to further enhance the operational efficiency, the company is also undertaking modernization and technology upgrading initiatives across its facilities. Our business outlook for the remaining of the fiscal year is positive and we expect to continue the growth momentum. Our order book continues to remain robust which gives us visibility for a strong performance over a near-term to medium-term.

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

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Giriraj Daga from K M Visaria Family Trust. Please go ahead.

Giriraj Daga: Couple of questions. First, what would be like volume outlook for FY2018 for the company as a whole? And if you can expect, what is the export contribution you expect?

Mr. Khandelwal: Volume expectation for the year FY2018, total lamination of 22,000 metric tonnes. Breakup into domestic and export is 18,000 metric tonnes for domestic and 4,000 metric tonnes for exports.

Giriraj Daga: And any broad indication for FY2019 numbers?

Mr. Khandelwal: I think FY2019 number is going to be in the range around 26,000 metric tonnes.

Giriraj Daga: Now coming back to the margins, like normally would you prefer looking at EBITDA per tonnes or EBITDA percentage, so that is the…

Mr. Khandelwal: EBITDA percentage.

Giriraj Daga: So, obviously the exports get higher revenue per unit, so EBITDA percentage is more or less same or EBITDA percentage is higher in export also?

Mr. Khandelwal: It will be higher in exports.

Giriraj Daga: Okay. So, should we assume this current quarter margin to sustain further, or should we expect some improvement from here on also?

Mr. Khandelwal: There would be improvement, but that would not be very much significant, it will be in the range of about 0.5% to 1% for the year.

Mr. Khandelwal: Year as a whole.

Giriraj Daga: But last year we did about 13.2%…

Mr. Khandelwal: Yes, so we expect around 14% - 14.5%, in that range.

Moderator: Thank you. The next question is from the line of Kaustav Bubna from SKS Capital. Please go ahead.

Kaustav Bubna: Just could you repeat your export volume growth for this quarter?

Mr. Khandelwal: For the year FY2018 is 4,000 metric tonnes.

Kaustav Bubna: What is it last year? What was your export volume last year FY2017 versus your expectation of FY2018?

Mr. Khandelwal: Last year it was about 2,600 tonnes.

Kaustav Bubna: Going into FY2019, what would your export volume be, your expectations?

Mr. Khandelwal: About 6,000 metric tonnes.

Kaustav Bubna: And am I assuming this right that the GE India deal where we were supposed to start recognizing revenues from this second half of this year has we already started recognizing revenues?

Mr. Khandelwal: Yes, we have already started recognizing revenue, that has been preponed by about six to eight months. During this quarter we have a good number of revenue coming from GE India.

Kaustav Bubna: Could you share that figure?

Mr. Khandelwal: That is about Rs. 13 crores.

Kaustav Bubna: And what do you expect? So, your first quarter you got Rs. 13 crores from this deal, what do you expect in the full year?

Mr. Khandelwal: See, that is actually a 10 year contract which quantifies into about Rs. 50 crores revenue per year. So, based on that quarterly revenue would be around Rs. 13 crores.

Kaustav Bubna: Okay, so it will be around the same lines. So which other, could you explain the ground situation in the export market and because one contract, the GE contract itself was snatched from the export market a few years ago and this has come to the Indian market now. So, could you explain the ground realities of the export market and how we are seeing growth over there, because that is the higher margin and it will be healthy for company to show growth in the export markets? So, could just explain the fundamentals of the export market and what is the…

Mr. Khandelwal: On the export side market is not very good, but it has stabilized. Earlier we were not seeing a certain stable volume, now that volume what we are talking about like 4,000 tonnes for lamination, that has stabilized. Another point which is related to stator frame, our value added component which was basically going to export market earlier, that is going to domestic market, this is related to the GE India contract. So, it is immaterial whether we supply to export or domestic because that product is a value added product, it will fetch more or less the similar margin on that product.

Kaustav Bubna: And also on your debt front, what debt to equity are we comfortable with and where do we see these Rs. 223 crores of total debt coming down to by the end of this year? Where is this debt being used, the long-term debt and how do we see this coming down?

Mr. Khandelwal: Long-debt of Rs. 223 crores is including the working capital financing.

Kaustav Bubna: Yes, so where is this total debt being, why has the debt increase then how do we see this at the end of FY2018?

Mr. Khandelwal: Debt has increased mainly because of the CAPEX. There are two new manufacturing facilities which have been set up, one is in Hyderabad called Plant 4, and another is in Aurangabad. The total outlay on this CAPEX is about Rs. 78 crores. Other than that, we are expanding certainmachineries; we are modernizing certainequipment's, so there is another expenditure of around Rs. 30 crores. So, this is for CAPEX, entire debt has gone for CAPEX. Now coming down by the end of the year its payback cycle of five to six years, so it will go into the regular repayment cycle. By end of the year I do not see any major reduction coming in the debt.

Kaustav Bubna: But once the Aurangabad plant is fully operational by the end of quarter three and is generating revenue you think in the next one - two years where there is not much CAPEX requirement required then that should come down?

Mr. Khandelwal: Definitely, that will go as a normal scheduled repayment of the term loans.

Moderator: Thank you. The next question is from the line of Anand Jhawar from JM Financial. Please go ahead.

Anand Jhawar: Could you throw some light on the value added products, I have seen the stator frame sales have shot up significantly. Any kind of traction that you are seeing in the domestic front because export like you said is just stable at best now. So, my whole thesis is, where is that, if we were to achieve that Rs. 800 crores to Rs. 1,000 crores top-line which I remember Akshay had cited some three, four years back, obviously it has gone off track. But if we are inspiring to get to that Rs. 1,000 crores mark, where is the traction coming from?

Mr. Khandelwal: Okay. As you rightly said we had gone off track for few years because of the bad markets conditions, both in domestic as well as in exports. But we are back on target and next three years we expect to reach near to that number, and the entire traction would be coming from the lamination and the value added product we call as machine component, metal component which will be machine in our facilities. The new Plant 4 which has been setup that is like we just said, Mr. Ganti said in his opening statement, is for Gamesa and Siemens. That has gone operational from 12th August 2017. So, this will be used for machining of large metal components. So, this will come into operations, already has come into operation. And Aurangabad will come into operations from Q3 end. So there also the volume will start increasing. So, we expect that by the end of three years we should be near to that number. As far your value added product, stator frame is one of the parts that we are supplying to GE against the contract. So, this itself along with some other parts is going to give us revenue of nearly Rs. 50 crores - 55 crores per year.

Anand Jhawar: Right. So, stator frame volumes will stable because it is obviously a quarterly number which if you have a 10 year contract, can we expect double-digit growth on this stator frame because that I believe is the high margin product?

Mr. Khandelwal: Yes, it is a good margin product and the numbers will be stable because it is equal quantity contract over 10 years. So, it will not increase whatever we are going to achieve in the first year will remain constant in the second, third, fourth year. May be minor variation could be there because of time lag of delivery lead times, that is all.

Anand Jhawar: I remember last two quarters we were a little optimistic on the sales to wind turbine generators as well. So, how is that going forward specially with lot of, has any contract been held up because a lot of purchasing power agreement is in the course of negotiation. Any difficulty you are seeing from your end?

Mr. Khandelwal: No, in fact wind has been doing well; during this quarter also wind has done well. And present order book position also shows wind is stable, right now. So, I do not think any challenges coming from the wind sector.

Anand Jhawar: Right. So, more traction from the railway or infrastructure related equipment's, I mean where, because what I am trying to understand if we are to go from annualized Rs. 400 crores to Rs. 1,000 crores that is like more than doubling our revenue, that means 30% plus on the top-line growth. And I assume for 13% to 15% whatever, some normalized percent of EBITDA, then we are looking at a significant jump over the next three years. But I am a little difficult to understand what GE is one part of the entire cycle but that alone is not going to take us to…

Mr. Khandelwal: No, others areGamesa and Siemens, that is going to be a machining of large components, as I said. Till now machining has been about 6% to 7% of our total revenue, which we expect can go up to around 30% - 35% of revenue, not expect, we are hopeful, we have a clear indication that it will go to up to 30% - 35% of revenue over the next two, three years.

Mr. Ganti: Anand, in addition to the normal growth in lamination existing business lines, the Rs. 1,000 crores was presupposing two other major milestones. One was to merge our castings company into Pitti Laminations and two is, we were also looking at some kind of inorganic growth. There was an acquisition that we were looking at. Those two plans are still very much on cards. We have taken a step back, like Mr. Khandelwal was saying that the market was not really conducive for being aggressive. Post those two key initiatives happening we still are good for that Rs. 1,000 crores top-line.

Anand Jhawar: Alright, got that. So, the acquisition is on the cards still if the environment…

Mr. Ganti: Yes, first would be a merger because it makes a lot of business sense.

Anand Jhawar: Any timeline for that?

Mr. Ganti: We were trying to do as early as possible; there are few things that need to be ironed out still.

Anand Jhawar: Still, would this be possible by the end of this fiscal FY2018 or it is more of FY2019 – FY2020 story?

N. R. Ganti: Probably FY2019 - FY2020 looks more do able rather than FY2018.

Anand Jhawar: And there was some court case was also pending I believe, post which there was some buy back or some share have been…

N. R. Ganti: The matter is resting with Supreme court.

Anand Jhawar: So, it is clarified, so there is no open offer now?

N. R. Ganti: Right now no. The date and terms of the open offer would depend on directives of Supreme court.

Moderator: Thank you. The next question is from the line of Ritesh Mistry from Moneybee Investment Advisors. Please go ahead.

Ritesh Mistry: What is our average realization, sir?

Mr. Khandelwal: Actually I do not have that figure readily off hand; I can share with you later.

Ritesh Mistry: No problem, sir. And sir this machining capacity, which is the plant we have just started, what is the capacity of that Plant 4?

Mr. Khandelwal: See, total capacity of machining after complete reorganization, because still it is going on, will become 201,000 hours per annum. This will include Aurangabad, Hyderabad existing Plant 2 and this Hyderabad new Plant 4.

Ritesh Mistry: And sir, we are also looking for the heavy casting, so what is the project, where has been progress on that project heavy casting?

Mr. Khandelwal: That project the time being it is deferred a bit because we first want to stabilize existing CAPEX.

Moderator: Thank you. The next question from the line of Sanjay Jain, he is an Individual Investor. Please go ahead.

Sanjay Jain: My question is, you are now into a lot of CAPEX and your company has just come out of the loss, you have announced the dividend also. So, isn't it good to put that money back into the business instead of giving dividend for the shareholders?

Mr. Khandelwal: No, I think there has been some misunderstanding somewhere. We have not announced dividend.

Sanjay Jain: Sorry. One more question, you have been supplying equipment to this transformers like Bharat Bijlee all this, so what is this business looking to you going forward?

Mr. Khandelwal: There has been pickup in this business right now. We are getting good orders from transmission side, even particular name which you have said Bharat Bijlee, that also business is going up. So, I see there is growth on that side.

Sanjay Jain: Regarding this wind energy sector, there are lots of quality issues going on currently. So, any effect because of that on your revenue because lot of part is coming from that sector?

Mr. Khandelwal: Presently, we are actually doing well in the wind sector. And the growth from the wind sector I see may not come good but it is stable right now. So, like whatever order book we have for Q2 and visibility for Q3, it is stable as equivalent to Q1.

Moderator: Thank you. The next question is a follow up from the line of Kaustav Bubna from SKS Capital. Please go ahead.

Kaustav Bubna: Sorry for my ignorance, but I am not aware of this Pitti Castings. Is it already a subsidiary of ours; is it in our consolidated books?

Mr. Khandelwal: No, it is not a subsidiary. It is a promoter Group Company.

Kaustav Bubna: So, could you share some sort of top-line it is doing right now?

Mr. Khandelwal: It is doing above Rs. 80 crores turn over annually.

Kaustav Bubna: And EBITDA?

Mr. Khandelwal: EBITDA percentage in casting is around 16%.

Kaustav Bubna: And also you said you all are trying to complete this by in the middle of FY2019, so one year from now?

Mr. Khandelwal: Actually this is on cards, this has been planned throughout, but timeline is a little difficult to say right now. But as Mr. Ganti said it is a long term plan expected to close around FY2020.

Kaustav Bubna: So, that is a long term plan. Also, what is the potential of us getting more deals in the domestic markets like the GE deal that we got, I mean, there was talk on company like Alstom giving us some sort of a deal or anything similar to that, what is the potential?

Mr. Khandelwal: Yes, potential is good. Alstom, still that contract is under discussion. Alstom is going little slow on that because they have already received the order from Indian Railways. They have to come into the market for buying. So, we are in discussion with them, and most probably we will be the potential vendor who will be getting this order.

Kaustav Bubna: So, that would be very positive, right, because that would mean another annual lump sum, that would be another few years deal with consistent revenues coming in?

Mr. Khandelwal: Yes, it will be a seven, eight years deal.

Kaustav Bubna: Rs. 200 crores - Rs. 300 crores worth maybe?

Mr. Khandelwal: Yes.

Kaustav Bubna: So, that again you would add that on, so that is a very long. And in the export market do we see anything like this?

Mr. Khandelwal: No, in export we do not see anything like long-term contract coming in. It is on regular basis. Whatever is there annual demand that only comes in? So, other than this another point was regarding Crompton, that is our small lamination business where we are going to start producing small lamination for Crompton from our Aurangabad plant.

Kaustav Bubna: So, could you share some numbers, I mean what is the numerical potential?

Mr. Khandelwal: We have entered into an agreement with them for about 1,000 tonnes per annum quantity. Over a period we expect this to increase to about 3,000 tonnes per year.

Kaustav Bubna: And what is the realization per tonnes?

Mr. Khandelwal: This is for small appliances and realization per kgwould be around Rs. 100 per Kg.

Kaustav Bubna: And you see this increasing to about 3,000 in the next two years?

Mr. Khandelwal: Two to three years we are going to start that business now.

Kaustav Bubna: And on this Siemens, Gamesa, that machine components, that would be out of the Hyderabad plant, right?

Mr. Khandelwal: Yes.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

N. R. Ganti: Thank you for actively participating. If you have any further queries, please do reach out to Churchgate Partners, our IR managing firm and we will get back to you. Thank you.

Moderator: Thank you. On behalf of Pitti Laminations Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line.

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Note: This transcript has been edited to improve readability

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