Earnings Conference Call

Q4 and Full Year FY2015

April 28, 2015

Management:

Mr. Akshay S. Pitti, Vice-Chairman and Managing Director

Mr. N R Ganti, Director

Moderator: Ladies and gentlemen good day and welcome to Pitti Laminations Q4 and Full Year FY 2015 Earnings Conference Call. As a remainder, 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, please signal an operator by pressing "*" then "0" on your Touchtone Telephone. Please note that this conference is being recorded. Joining us today on the call are Mr. Akshay S Pitti – Vice Chairman and Managing Director; and Mr. N R Ganti - Director.

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. 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 Q4 and full year FY2015 earnings conference call. I have with me on the call today Mr. Akshay S. Pitti - Vice Chairman and Managing Director of Pitti Laminations. 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.

The financial year started with difficult economic conditions. However, it gradually picked up pace and showed improvement in the later half. India's index of industrial production grew by 5% in February 2015 compared to same period last year with manufacturing sector registering a growth of 5.2% during the same period. The capital goods sector which remained volatile earlier recorded a growth of 8.8% in February. The capital goods sector has shown continuous improvement over the past four months. It signifies the investment activity is gradually gaining traction due to improved business sentiments and gradual pickup in the new business. The various reforms undertaken by the government coupled with monitoring easing stance by the RBI is anticipated to bring the investment momentum back to the economy.

During the quarter we recorded a robust volume growth of 40.6% compared to same period last year to 6,016 metric tons. This growth was driven by improvement in the overall business sentiment and better industrial activities. Our domestic volume continued a steady pace whereas export volumes experienced significant growth. Domestic volume for the quarter was 3,270 metric tons, an increase of 11.9% over the same period last year. Export volume increased by 102.3% to 2,746 metric tons compared to the same period last year. Demand for our stator frames also experienced considerable growth from 73 units in Q4 FY2014 to 162 units.

As a result of the robust growth in domestic as well as export volume, our revenue for the quarter increases by 56.4% to Rs. 1,039 million. Domestic sales accounted for 41% of the total sales and remaining 59% was contributed by exports. Domestic sales for the quarter increased by 13.3% compared to the same quarter of last year to Rs. 417 million. Exports sales for the quarter was Rs. 605 million, an increase of 106.8% compared to the same period last year. Our EBITDA for the quarter was Rs. 145 million an increase of 85.1% compared to Q4 FY2014. EBITDA is defined as profit from ordinary activities before finance cost, depreciation, exceptional items, and includes foreign exchange loss or gain. This growth was driven by improvement in overall volumes resulting in cost synergy achieved due to operation at higher capacity level. EBITDA margin for the quarter was 14.0% indicating improvement of 216 basis points compared to same period last year.

PAT for the quarter increased by 134.7%, to Rs. 46 million compared to the same period last year. This improvement in profitability 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 year-on-year basis. PAT margin for the quarter 4.4% an increase of 148 basis points compared to the same period last year.

Now moving to the financials for the full year. The total volume for the year was 21,414 metric tons, an increase 42.4% compare to last year. During this financial year we recorded our highest ever annual domestic volume at 13,528 metric tons, an increase of 25.9% and exports increased by 83% to 7,886 metric ton.

Our revenue for the year increased by 37.6% to Rs. 3,410 million compared to the last year. Domestic sales accounted for 51% of the total sales and remaining 49% was contributed by exports. Domestic sales for the year increased by 21.8% to Rs. 1,711 million. Exports sales for the quarter was Rs. 1,657 million, an increase of 60.9% compared to the same period last year. Our EBITDA for the year was Rs. 422 million indicating a growth of 64.6% compared to FY2014. PAT for the year increased by 121.8% to Rs. 93 million compared to the last year. PAT margins recorded a growth of 104 basis points to 2.7%.

Moving to our leverage profile, we are comfortable with our current capital structure. As on 31st March, 2015, our total debt was Rs. 1,364 million and cash and cash equivalent of Rs. 153 million resulting in a net debt position of 1,211 million. The overall increase in total debt was driven by higher working capital requirement to support increased volume demand coupled with minor CAPEX for the Pune facility. The net worth of the Company was Rs. 1,173 million at the end of this fiscal year. As of March 31st, 2015, we had a conservative leverage profile with total debt equity ratio of 1.2x and net debt to LTM EBITDA of 2.9x.

The Board of Directors have declared a final dividend of Rs. 0.625 per share (face value share of Rs. 5), which takes the total dividend payout for the year to 20%. 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.

We are pleased to inform that our company has been conferred the 'Certificate of Excellence' by GE. This certificate was awarded to the Company for being the 'Best Supplier – Quality 2015'. This recognition is a testament to our commitment of providing products with international quality standards to the customers.

Despite facing challenging times in the early part of the fiscal year, we bounced back with remarkable recovery in the later part of the fiscal year. Our unique positioning and customer relationship has enabled us to capitalize on the demands uptick on account of better industrial activity. Our current order book gives us the confidence to continue the growth trajectory. We believe that the worst behind expect to capitalize on the improving sector the sector dynamic. Our recently commissioned Pune facility provides us an added advantage to benefit from any arising opportunities.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Yash Ved of India Infoline. Please go ahead.

Yash Ved: Hello, sir. What is the CAPEX for the quarter and for the full year?

Akshay S. Pitti: About Rs. 15 crores of CAPEX for the full year. In the quarter should be about Rs. 6 odd crores which got commissioned in the last quarter.

Yash Ved: Okay. And what is the outlook in the coming quarter?

Akshay S. Pitti: The outlook is very strong for the coming year. For the coming few quarters we expect a good growth to continue if you just see in Q4 we have had about Rs, 103 crores of net revenue which should be an indicator of the quarters to come.

Yash Ved: Okay. And what is your revenue mix like?

Akshay S. Pitti: You mean domestic and exports?

Yash Ved: Yeah, yeah.

Akshay S. Pitti: Like Mr. Ganti said that domestic is about 51% and exports about 49%.

Moderator: Thank you. Our next question is from Sanjeev Hota of Sharekhan. Please go ahead.

Sanjeev Hota: Thanks for the opportunity. If you could share the current order book position what you have in the Q4?

Akshay S. Pitti: See in terms of order book from the GE we have about Rs. 600 crores worth of order for three years which translates to about Rs. 200 crores of orders a year running until FY2017. And in the domestic market we do not get an order visibility beyond a quarter so, as of now, we have orders projected to end this financial year at about Rs. 440 crores of turnover.

Sanjeev Hota: Rs. 200 crore, okay.

Akshay S. Pitti: Yes. And in the domestic market we do not get firm orders beyond a quarter but on a projected basis it is about Rs. 400 crores for the whole year that is consolidated revenue. So about RS. 200 crores of exports and RS. 200 crores of domestic.

Sanjeev Hota: Right. And if you could share the sectorial wise detail in terms of which sector we are getting more orders like power generation, transportation, mining or locomotives?

Akshay S. Pitti: See we will not know exactly which sector the order is coming from because that is our end customer orders. But from an indicator basis most of the orders are coming from the locomotive sector from the North American market. And in the domestic market it is primarily being driven from the wind power, hydro and thermal power and industrial side.

Sanjeev Hota: Okay, wind, thermal and industrial.

Akshay S. Pitti: It is an indicative figure because these are our customers order.

Sanjeev Hota: Okay. And if you could share what kind of margins do you make in the export market and what is the in our domestic market. What is the differential in the margins?

Akshay S. Pitti: There is no differential margin it is a flat margin that we have on every ton of sales that we do.

Sanjeev Hota: Okay. So there is no differential in margin in export or domestic?

Akshay S. Pitti: It is nothing significant, you know from customer to customer there maybe 1% or 2% plus or minus but on a macro level it is more or less the same.

N R Ganti: In export it looks more profitable because of the more value addition that takes place.

Sanjeev Hota: Okay. And anything on the forex front you are doing because of the volatility in rupee, which are the export you are catering too?

Akshay S. Pitti: See we mainly cater to the North American market that is Canada, U.S., and Mexico, all three.

Sanjeev Hota: Okay. Maximum is coming from that area

Akshay S. Pitti: All of it is dollar denominated.

Sanjeev Hota: Right. So no other currencies we are involved in.

Akshay S. Pitti: No.

Sanjeev Hota: And if you could give some colour on the working capital cycle going forward, how if there will be anything improvement that can we see in the coming years?

Akshay S. Pitti: See as an industry this is a very working capital intensive industry so there is no possibility of improvement on that.

Sanjeev Hota: Okay. So this is going like to continue like this only.

Akshay S. Pitti: It will continue like this, that is the nature of this industry.

Sanjeev Hota: Okay. And how much the forex gain we have booked in FY2015 in the EBITDA line?

Akshay S. Pitti: For FY2015 it is Rs. 6 lakh forex gain.

Sanjeev Hota: Rs. 6 lakh, okay. So we generally hedged our receivable or how we will grow to it?

Akshay S. Pitti: We hedge all of our foreign currency. We have a lot of imports as well as exports. Everything is fully hedged.

Sanjeev Hota: Right. And what about the capex plan for next two years?

Akshay S. Pitti: See next year as of now we do not have any significant capex planned because we have a capacity of about 32,000 tons to 36,000 tons of lamination and for the current year we are projecting about 24,000 tons sales so there is no need to enhance the capacity as of now.

Sanjeev Hota: In the last three years how the capacity has improved?

Akshay S. Pitti: In last year we had done a capex to increase our capacity from 32,000 tons to 36,000 tons which is now being commissioned so that is about it. Most of it was automation and up-gradation of old facilities.

Sanjeev Hota: Right. And what is the current utilization?

Akshay S. Pitti: See currently we are operating at the rate of 6,000 tons per quarter which is about 75% utilization.

Sanjeev Hota: Okay. And this can go up to how much?

Akshay S. Pitti: We can go comfortably up to 85% to 90%. As this point again we will start our capex cycle but that is in the future and at the relevant time we will look into that.

Sanjeev Hota: Any aspirational target for the earnings growth in the next two years sir?

Akshay S. Pitti: No, I think this year will be in a consolidated phase. Let us start to consolidate what we have achieved in terms of growth and target about Rs. 400 crores to Rs. 440 crores of turnover and then talk on those lines.

Sanjeev Hota: Okay. And the margins will be maintained at this level?

Akshay S. Pitti: Yes, margins will be maintained at this level. It will improve slightly but yes, definitely we will maintain this.

Sanjeev Hota: Okay. And what about debt, will we need a further debt because of the higher growth will come, so do we need a higher debt on our books?

Akshay S. Pitti: No, it is marginally higher. If you analyze Q4 you already had Rs. 400 crores so our debt gearing is based on that. It will not be any significant debt that should come on.

Sanjeev Hota: So year-on-year it will be going to be more or less the same.

Akshay S. Pitti: Yes, marginal increases here and there based on operating requirement.

Sanjeev Hota: Okay. And the incremental capacity already capitalized and it is already reflecting in the depreciation?

Akshay S. Pitti: Yes.

Moderator: Thank you. Our next question comes from Shashank Kanodia of ICICI Securities. Please go ahead.

Shashank: Sir I have two set of questions. First, on the stator volumes, this full financial year we are reporting 294 as absolute numbers for stator frames whereas the previous year it was 501. So why there was such a sudden drop and what is the outlook going forward for stator frames?

Akshay S. Pitti: See that is based on the customer demand. For the just concluded year there was no demand on product's customer therefore it has fallen. Going forward we see about 600 numbers for the current financial year.

Shashank: So this 600 number is for FY2016. And that includes in your guidance for Rs. 440 crores of gross turnover.

Akshay S. Pitti: Yeah, this is included in about Rs. 440 crores.

Shashank: Okay. And these are mainly for export, right?

Akshay S. Pitti: Yeah, these are only exports.

Shashank: So have you gone and find out some more customers domestically for the stator frames?

Akshay S. Pitti: Actually currently no body consumes the fully assembles stator frames in the domestic market. They do that process in-houses. We are trying to work with our customers and encourage them to outsource it. Let's see how that goes forward.

Shashank: Okay. And sir secondly on the balance sheet there was increase in long-term investments for Rs. 4.1 crores to Rs. 16.4 so, can you please explain me what is that account for?

Akshay S. Pitti: That is the in a subsidiary foundry company which was earlier a subsidiary company that is now hived off into associate company so that is the equity investment in that company.

Shashank: Okay. So have we infused cash into it Rs. 12-12.5 crores?

Akshay S. Pitti: Yes. That is basically conversion of unsecured loans subordinated to that term loan into equity. That is part of the original acquisition deal.

Shashank: Right. And any other further cash infusion on this account?

Akshay S. Pitti: No, further cash infusion.

Shashank: Yeah, I think your working capital needs have decreased from 146 days kind of working capital it has come down to 120 days in FY2015. So it possible to further reduce that or it will get elongated because the share of exports will grow up?

Akshay S. Pitti: You will see it is a fluctuating number like I said it is the nature of the industry long working capital cycle sometimes it may come down to 120 days. Sometimes it may go up to 180 days. So it will keep fluctuating depending on the product mix and the end customer. For different customers we have different credit terms depending on their business share they will keep fluctuating.

Moderator: Thank you. Our next question comes from Dixit Doshi of Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Sir, can you give us the realizations per ton in the domestic and the export market?

Akshay S. Pitti: See that is again a very broad question because it depends on the grade of electrical steel that we are using for the end product so there is no differentiation between exports or domestic it is basically based on the grade of electrical that is being used.

Dixit Doshi: Okay. And you said that you are expecting around 600 stator frame sales for FY2016 so I mean do we have such kind of orders?

Akshay S. Pitti: We have projected orders for those; we do not have firm orders. The Rs. 200 crores for firm exports does not include 600 numbers of firm orders on this. It is projected to be 600.

Dixit Doshi: Okay. And sir in Annual Report we have mentioned that once our Pune plant will be started we will get some benefit in terms of sourcing our raw material as well as some new orders can be expected from the players who are situated in Pune. So how are the things looking like?

Akshay S. Pitti: Pune plant is shaping up well. It has started production in December and ramping up. In terms of the raw material efficiency yes it is definitely there. Earlier also the raw material use to come from Pune facility of POSCO to us in Hyderabad so we are avoiding the transport cost and the CST so that sourcing efficiency has already kicked-in to the extent of the operations of Pune plant. In terms of new customer growth – it is basically not in the new customer account, it is basically in enhanced orders and enhanced model of the customer that will do going forward because of being situated in Hyderabad we had a competitive disadvantage over a competitor sitting out of Pune. So now we will do more series of their motors being in Pune then add volume.

Moderator: Thank you. Our next question is from Bhavya Gandhi of iWealth Management. Please go ahead.

Bhavya Gandhi: Sir I had a couple of questions. One was regarding sir raw material-to-sales which was around 67% this quarter. Is it going to remain at this level or we can see because the steel prices are coming down a bit of softening in that?

Akshay S. Pitti: The steel prices are coming down but that will not impact our profit because we have a 100% pass through on the price of raw material. We have price variations clause which is 100% pass through.

Bhavya Gandhi: Okay. So but how it has increased sir?

Akshay S. Pitti: No, the raw material price increased so the cost of raw material therefore our selling price increased so margins are protected. Similarly when the raw material prices will go down the cost of raw material will go down therefore our selling price will go down and margins will still be protected.

Bhavya Gandhi: Okay, got it. And second question sir if you could give me volume guidance for FY2016 in terms of domestic and exports if you can?

Akshay S. Pitti: See domestic should be about 13,000 tons and exports should be about 9,000 tons, give or take 1,000 tons each.

Bhavya Gandhi: And sir machining?

Akshay S. Pitti: Machining I said 600 numbers of stator frames and about 200 numbers of machined stator frames.

Moderator: Thank you. Our next question is from Kashyap Jhaveri of Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: Just on the industry side can you throw some light on what is the size of the industry, who are the competitors or do we have any threat from say imports or something like that?

Akshay S. Pitti: The industry size is estimated to be about 350,000 tons per annum in India. Globally it is really huge industry. We cannot give you a firm data as to how big the global industry is. In terms of competitors we have a lot of competitors in India from very-very small size to may be people who are about half of our size. We are by far the largest manufacturers of electrical laminations in India. In terms of threats from imports normally nobody imports electrical steel laminations because it is very impractical to import that because of the long cycle times,

Kashyap Jhaveri: Right. And globally which country is the largest manufacturer in sector?

Akshay S. Pitti: See it is very difficult to say because electrical steel laminations are used for so many sectors to collate any data is something that we do not have.

Kashyap Jhaveri: Okay. But in India there would be many players who would manufacture this?

Akshay S. Pitti: Yeah, there are lots of player like there is no organized sector in lamination because electrical steel lamination was consumed in something as small as a table fans all the way up to a larger hydro or thermal power plant.

Moderator: Thank you. Our next question is follow-up from Sanjeev Hota of Sharekhan. Please go ahead.

Sanjeev Hota: You have said about Rs. 200 crore order-book from exports so it constitute of mostly from GE or excluding GE?

Akshay S. Pitti: It is a GE Group of Companies like we supply to multiple companies when the GE Corporate so it is mostly from them.

Sanjeev Hota: Okay. Excluding GE there is no other clients?

Akshay S. Pitti: There are other customers that we have in Europe and Australia but they are not that significant.

Sanjeev Hota: Okay. And this Rs. 200 crore is executable over FY2015 to FY2017?

Akshay S. Pitti: Rs. 200 crores every year executable up till calendar year FY2017.

Sanjeev Hota: Okay. So you could give us some beyond GE how the order book visibility is there in the export market?

Akshay S. Pitti: Beyond that we only get quarter-to-quarter orders like I mentioned earlier. Beyond the quarter we do not get visibility. We only get projection and those projections are created to take us to a turnover between Rs. 400 crore to Rs. 440 crore.

Sanjeev Hota: Okay. So it cannot be estimated prior to the quarter because you get the order in the quarter only.

Akshay S. Pitti: Exactly.

Moderator: Thank you. Our next question comes from Saurabh Ginodia of Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Yes, sir I was new to your company. So basically I would like to know who are the other competitors in your segment in India as well as globally, if you can name one or two companies?

Akshay S. Pitti: If I take the large competitors who are in India, we have two companies that come to mind one is Precision Stampings and the other is Kapson Industries. These are about half of our size and these are the next biggest players in this segment. There are a lot of small entities who make this. And on global level we have two companies, Kienle+Spiess based out of Germany and the other Tempel Steel based out of the U.S.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments. Over to you, sir.

N R Ganti: Yeah, thank you ladies and gentlemen for participating today. We hope to meet you again next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Pitti Laminations 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