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Earnings Conference Call

Q2 FY2015

November 5, 2014

Management:

Mr. N R Ganti, Director

Mr. Vijay Kumar, Executive Director & CFO

Moderator: Ladies and Gentlemen, good day and welcome to the Pitti Laminations Q2 FY15 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 Q2 FY 2015 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.

The Index of industrial Production (IIP) grew by only 0.4% in both July and August 2014. This softness was primarily due to a contraction in the capital goods, consumer durable and consumer non-durable sectors. Although business and consumer sentiment has shown significant improvement, it has not completely translated into actual demand. In terms of sectoral classification, electricity sector, registered a strong growth of 12.9% in August 2014 driven by robust growth in thermal electricity generation. Stiff coal production targets and the Supreme Court's lifting the ban on mining iron ore in Karnataka and Goa has helped mining sector to growth consistently since November 2013. Manufacturing sector, which is a reflection of the overall industrial growth contracted by 1.4% in August 2014. However, going forward it is expected to improve driven by a favourable base, festive season demand and the budgetary support.

Continuing on our growth momentum, we registered strong volume growth of 19.3% to 4,558 metric tons compared to the same quarter last year. This robust growth was driven by a gradual recovery in export volumes. Export volumes for the quarter were 1,517 metric tons, an increase of 25.5% year-on-year and 2.2% sequentially. Domestic volumes for the quarter were 3,041 metric tons, an increase of 16.5% compared to the same period last year and a decline of 10.5% compared to the last quarter. This sequential decline in domestic volumes was primarily due to cyclical factors.

Driven by the improvement in export demands, our revenues for the quarter were Rs. 718 million, an increase of 4.2% on year-on-year basis, and remained flat compared to the last quarter. Domestic sales for the quarter increased by 14.7% year-on-year and declined by 6.7% quarter-on-quarter to Rs. 404 million. Our exports sales decreased by 6% year-on-year and increased by 9.5% quarter-on-quarter to Rs. 307 million. Our sales for the quarter included an impact of the softness in demand stator frame due to a temporary postponement of the order. However, as mentioned in the last quarter, stator frame demand is anticipated to experience a sharp recovery from Q3 FY2015 and onwards.

Our EBITDA for the quarter was RS. 93 million, representing an increase of 33.2% compared to Q1 FY2015 but declined by 20.9% compared to the same period last year. Decline in EBITDA on year-on-year basis was primarily due to the continued softness in stator frame which is a high margin business for us. EBITDA margin for the quarter was 12.9%, an increase of 326 basis points compared to the last quarter. Management expects the margins to improve going forward on back revival of stator frame demand.

Our financial expense for the quarter was Rs. 28 million, an increase of 2.3% year-on-year and 13.2% quarter-on-quarter. However, as percentage of sales, it remains flat at 4% compared to the same period last year. This increase in absolute terms was primarily due to higher working capital requirements driven by increased volumes. Q2 FY2015 PAT increased by 16.1% sequentially and declined by 18.7% year-on-year to Rs. 10 million. PAT for the quarter is not comparable on year-on-year basis as Q2 FY2015 PAT includes an impact of higher depreciation on account of implementation of new Companies Act. PAT margin for the quarter was 1.4%.

We are very comfortable with our current capital structure. As of 30th September 2014, our total debt was Rs. 1,152 million and cash in cash equivalent for Rs. 139 million resulting in a net debt position of Rs. 1,012 million. We continue to repay our long term debt obligations. Overall increase in total debt was driven by higher working capital requirements to support increase in volume demand. The net worth of the company was Rs. 1,130 million at the end of the quarter. As of 30th September 2014, we had a conservative leverage profile for the total debt equity of 1x.

We are pleased that we have been able to improve our performance consistently and we believe that this trend will continue. The overall business sentiment has improved and is expected to translate into further increase in industrial activity which is one of the key growth drivers for us. Furthermore, our current order book indicates significant improvement in demand for our products, particularly Stator frames. The anticipated trend will benefit our overall top line and profitability. We would now like to open the call for a Q & A session, thank you.

Moderator: Thank you very much Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have first question from the line of Ipshita from Moneybee Advisors. Please go ahead.

Ipshita: Good afternoon Sir. Is Mr. Akshay Pitti here? He is not available on conference call for quite some time.

N R Ganti: No, he is not here, he is travelling. In fact, he has left today morning. We are planning to, in the coming 2 quarters he will be in Bombay, perhaps meeting all of you in person.

Ipshita: Sure sir that will be great. Coming back to the performance, I think we saw some kind of improvement as far as our domestic business is concerned. Can you share the order book numbers?

Vijay Kumar: For the exports, more than Rs. 100 crores order book is there for the third and fourth quarters of current financial year and domestic also an equal amount of order book is there.

Ipshita: More than Rs. 100 crores?

Vijay Kumar: Yes.

Ipshita: So this we expect to execute over the coming what 5 to 6 months?

Vijay Kumar: Yes, we want to execute before March itself, by March 2014.

Ipshita: And Sir, what is the current status of the GE order that we were seeing some kind of postponement?

Vijay Kumar: The delivery for GE orders has started and this is the reason that we are anticipating Rs. 100 crores of export orders in next 6 months. This order also includes stator frames.

Ipshita: Okay, so like you mentioned we expect that improvement to come from the next quarter?

Vijay Kumar: No, from current quarter onwards.

Ipshita: Yes, current running quarter.

N R Ganti: With GE we already have a 3-year long term contract signed and sealed that is a big relief.

Ipshita: Okay, alright. And how is our consumer business taking up?

Vijay Kumar: Consumer business sales will start by December. We have some plans and reshuffling the machinery and consumer business will start by December 2014.

Ipshita: With reference to the plant at Pune, so our production is on at full swing or?

Vijay Kumar: The production will be in full swing by January.

Ipshita: And sir what about the open offer?

N R Ganti: Open offer, you know, that it is with the Supreme Court. The Supreme Court has given a next date of hearing on 6th January.

Ipshita: So we have to wait for another few months.

N R Ganti: Yes, we will have to wait and see how it plans out.

Ipshita: Okay, but whatever order comes, this time it will be final and binding, right?

N R Ganti: No, if it is not even accepted at the Supreme Court level that means SEBI has lost the case. We can open the offer as it is. But if the Supreme Court admits it because there is a law involved and they want to interpret it once for all, then we do not know how long this one will take.

Moderator: We have the next question from the line of Pranay Jhaveri from J&J Holdings. Please go ahead.

Pranay Jhaveri: I just wanted to understand your installed capacity and the utilization.

Vijay Kumar: For lamination?

Pranay Jhaveri: Yes, if you can just have a break up for lamination as well as the Stator.

Vijay Kumar: We have 32,000 metric tons installed capacity for laminations business and 3,000 units for the stator sales. In this year's stator frame sales business, till quarter two we have done only 5 nos, but in Q3 and Q4 we are expecting good volumes.

Pranay Jhaveri: Q1, Q2 what was the utilization rate, in both?

N R Ganti: For stator frames the low capacity utilization is because of postponement of orders and is not because of lack of anything, but basically we did not have the orders. As mentioned earlier orders were deferred, so now they are coming back. The next 2 quarters we expect to be significantly higher compared to the first two quarters.

Pranay Jhaveri: And what about laminations, sir?

N R Ganti: Laminations we are currently doing a 20,000 ton. We will end up at 20,000. So, that will be around 65-70% capacity utilization. Being an engineering company, it is a little difficult to calculate it because it all depends on the product mix. If the product is more complicated and weighing less, then the capacity utilization will be far lower and if the product mix is little less complex and heavier, then the capacity utilisation obviously will be higher because it is done in tonnages. But at any given time, we always will definitely do 65-70% of our capacity.

Moderator: As there are no further questions from the participants, I would now like to handover the floor back to Mr. Ganti for his closing remarks, over to you sir.

N R Ganti: Thank you ladies and gentlemen for taking your time. We hope that you had an opportunity to actually understand what exactly we did in this quarter and look forward to interacting with you all next quarter. Thank you.

Moderator: Ladies and gentlemen on behalf of Pitti Laminations that concludes this conference. Thank you for joining us, you may now disconnect your lines.

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Note: This transcript has been edited to improve readability