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Earnings Conference Call

Q3 FY2014

February 10, 2014

Management:

Mr. N R Ganti, Director

Mr. Vijay Kumar, Executive Director and CFO

Moderator: Ladies and gentlemen good day and welcome to Pitti Laminations Q3 FY2014 Earnings Conference call. As a reminder, all participant 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 statement 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 handover the call to Mr. Ganti, over to you sir.

N R Ganti: Good afternoon and welcome everyone to our Q3 FY2014 Earnings call. I have with me Mr. Vijay Kumar, Executive Director and CFO. We hope 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 financials, followed by highlights of our key strategic and operational performance. We will then open the call for an interactive Q&A session.

The overall Indian macroeconomic scenario continues to remain volatile and unpredictable. Index of industrial production (IIP) growth for November 2013 declined by 2.1%. This decline was primarily driven by 21.5% decline in output of consumer durables, despite the festive season. Furthermore, slowing economic growth, high inflation, decline in consumer spending and high borrowing costs, coupled with delayed government approval have resulted in rise in the stalled projects.

The performance of the company during the quarter remains muted due to the prevailing difficult global economic scenario. Our revenues for the quarter were Rs. 489 million, indicating a decline of 29.1% compared to Q2 FY2014. Of the total sales, domestic sales accounted for Rs. 382 million, an increase of 20.5% y-o-y and 4.9% sequentially. Our export sales declined by 76.5% y-o-y and 67.1% sequentially to Rs. 107 million. This significant decline in export sales was primarily on account of temporary postponement of orders from some of our clients. However, based on the current pipeline, we expect the situation to improve and we will experience increase in export orders in the coming quarter. In Q3 FY2014, our total volumes stood at 3,217 metric tons, a decline of 15.8% sequentially. Our domestic volume for the quarter was 2,761 metric tons, indicating an increase of 5.7% compared to last quarter. Our export volume declined significantly by 62.3% sequentially to 456 metric tons. EBITDA for Q3 FY 2014 was Rs. 53 million, a decline of 55.8% compared to last quarter. This decline in EBITDA was primarily due to lower revenues and increase in cost of goods due to temporary postponement of orders. EBITDA margin for the quarter was 10.8%, a significant decline compared to Q2 FY 2014. This decline was primarily due to decline in export revenues.

Our financial expenses for the quarter declined by 17.9% sequentially, driven by debt repayments and better utilization of working capital. PAT for the quarter was Rs. 3 million, a decline of 72.1% compared to Q2 FY 2014. This decline was due to lower operating profit.

In terms of year to date (YTD) financials, our revenues for the nine months ended FY2014 declined by 23.3%, to Rs. 1,819 million compared to the same period last year. EBITDA for the period was Rs. 271 million, representing a decline of 19% compared to the same period last year. PAT for the period was Rs. 22 million compared to Rs. 66 million in the same period last year. However, our YTD PAT adjusted for foreign currency loss/gain, increased by 22.8% to Rs. 127 million, our YTD EBITDA margins and adjusted PAT margins, improved by 79 and 261 basis points respectively. This improvement was driven by our ongoing cost optimization initiative and efficiency improvement measures undertaken since last year.

We are very comfortable with our current capital structure. As of December 31, 2013, our total debt was Rs. 902 million and cash and cash equivalents of Rs. 80 million, resulting in net debt of Rs. 822 million. Our total debt declined by 18.4% to Q2 FY2014 and cash and cash equivalents improved by 31.3%. The net worth of the company was Rs. 1,112 million at the end of the quarter. As of December 31, 2013, we have a conservative leverage with a total debt to equity of 0.8x.

We have managed to deliver a satisfactory performance, despite tough global scenario. Though the near term visibility of improvement in demand scenario remains unpredictable, we expect situation to improve in the long term. Moreover, various initiatives undertaken by the government to facilitate commissioning of stalled projects is expected to improve the overall demand scenario. Also, based on our current pipeline, we anticipate significant improvement in our export volumes. As discussed during our last quarter's earnings call, we expect our recent diversification into consumer sector to start making contribution from the next quarter. However, full contribution would be evident from Q1 FY2015. This will also help further diversify our product portfolio.

We would now like to open the call for a Q&A session.

Moderator: We will now begin the Question and Answer session. The first question is from the line of Ritesh Mistry from MoneyBee Advisors. Please go ahead.

Ritesh Mistry: Sir, my question is mainly on the export business, why there is a sudden fall in the export revenue? And going forward, how do you see the export business in the coming quarters or in FY2015, demand wise?

N R Ganti: Basically the export revenues have declined temporarily because of some postponement of orders, as I have mentioned earlier. So we expect that to pick up from the beginning of this quarter and we see that it is going to be a lot better than what it was last year. Indicative pipeline suggests that the export volumes are going to be better than what we have done so far.

Ritesh Mistry: And on the domestic front sir, demand wise?

Vijay Kumar: Domestic front, we are already experiencing some growth. The same momentum will be continued going forward. The same trend will continue with the expected increase of 5-10%. Exports are also experiencing better growth momentum; this quarter is anticipated to be better than the last quarter.

Ritesh Mistry: And sir if you can throw some light on open offer?

N R Ganti: We recently gave a public announcement about the SAT's order. The SEBI has chosen to contest SAT's order which was in our favour and it is now in Supreme Court. So we will have to wait for Supreme Court's directive whether they are going to accept the SEBI appeal and if so, then we will have to then contest it there as well.

Moderator: The next question is from the line of Prashant Sarkar from JNJ Holdings. Please go ahead.

Prashant Sarkar: Now, coming back to the volumes, in the first nine months we have done total about 10,776 MT, right? And our total capacity is 32,000 MT. So, what is the maximum in the normal year on the 32,000, this is name plate capacity, so how much maximum can you go for production?

N R Ganti: The definition of capacity depends on different types of product that we do, so if you do complex products, obviously the capacity gets adjusted and into to a lower number. If you have a typical sample product and in any given year, usually we do 25,000 – 26,000 tons, that is going to be a good capacity utilization. There are plans, in case there is demand then we can even increase that. It is a question of how you utilize the machinery and because it is an engineering company, capacity is somewhat elastic depending on what products that we choose to make. Obviously our choices depend on our customers' need. So 10,000 MT is definitely very low capacity utilization so far. And that is the reason why you find that the margins have significantly declined, specially this particular quarter which is only barely 3,000 tons. So if you extrapolate it, it would be around 12,000 odd tons in a year which takes us back may be 6-7 years actually, basically that kind of volume those days.

Prashant Sarkar: Basically as a good dealer, you can make anything between 26,000-28,000 MT.

Vijay Kumar: It depends upon the lamination of the product. But we can touch that 28,000 MT levels.

Prashant Sarkar: Yes, that includes the machining capacity as well, right?

N R Ganti: No, machining capacity is entirely different. This is only for the lamination part of it.

Prashant Sarkar: So what has exactly happened? I mean this year, is obviously going to be a wash out. You probably will end a year at say, not more than 15,000?

N R Ganti: Yes, that it will be a good target.

Prashant Sarkar: Yes because you done say 10,776 MT, so another 4,000 MT, you are saying exports are going to be better and even domestic might be better so you can expect 15,000 MT? So what would be a realistic expectation for FY2015 as you said the export pipeline is looking very good and domestically hopefully should improve, than what can we expect for FY2015?

N R Ganti: I would not like to venture with any certainty as to what will be the actual numbers, but internally we hope to do at least 20,000 tons.

Prashant Sarkar: At least 20,000 MT?

NR Ganti: 20,000 to 22,000 tons, but any way for 22,000 MT it has to be a good year, 20,000 should definitely be an achievable target. This is based on the current visibility that we have.

Prashant Sarkar: What has exactly happened, why your exports have really slumped? Is it because of dependence on only one customer like GE which is like more than 70% of the sales in exports?

N R Ganti: No, that is a misconception a lot of people carry. GE is a one single customer but we cater to several arms of GE which are all independent companies. They all come under the umbrella of GE, but they cater to different segments and different locations. Internally we don't see it as one company. What has happened is, basically the GE's demand globally has declined and once their demand is not what is projected, then it has a tailing impact on all its suppliers, not just us. Globally, whoever is supplying to them various parts, they also have taken a hit from that.

Prashant Sarkar: But then what makes you confident for FY2015?

N R Ganti: Actually now, GE orders pipelines are showing very healthy trend because normally they give us advance orders, indicating what will be there in the next 4 quarters. Based on that, we are quite optimistic that exports will improve.

Prashant Sarkar: Any plans to diversify your customer's base? Have you utilized this opportunity to go in other customers in exports? Because the rupee thing also we would be much more competitive right? So have you managed to get any new customers other than GE in exports?

N R Ganti: It is an ongoing process. Unfortunately, Mr. Akshay who heads the Marketing is not here today. He would be able to give more insight into it. At the board level, we certainly get to see a lot of marketing activities taking place, such as participation in international trade fairs/exhibitions, where we display our products. So this is a continuous process.

Prashant Sarkar: What are your views on a Domestic avenue? Are you all seeing on the domestic market, are you all seeing any tangible improvement there?

N R Ganti: Not really, but I think the worst is behind us, that is the impression that one gets and hopefully post general elections, I think things should start falling in place. You cannot have this kind of uncertainty for too long.

Prashant Sarkar: So next year how about this expected say 20,000 or 22,000 MT. What would be the mix, export will go back again to more than that 50%?

N R Ganti: Yes, I would assume so Prashant, I think definitely that the export to domestic will go back to a healthy ratio. Exports will be slightly more than the domestic.

Prashant Sarkar: So at least it should be nearly more than 50%.

N R Ganti: That is right.

Prashant Sarkar: And one more thing, on the status of the open offer, now what is the thing now, they will appeal, say we would have put in which court?

N R Ganti: Supreme Court.

Prashant Sarkar: So this is the final thing?

Vijay Kumar: Yes. We have won in SAT.

Prashant Sarkar: Yes that I got it, but now this Supreme Court generally how much time it will take, it can be expedited? Or how is it?

N R Ganti: We cannot predict how long it is going to take.

Vijay Kumar: SEBI appealed in Supreme Court. First of all whether the Supreme Court will allow or reject we do not know.

Prashant Sarkar: So that how much time will you know?

Vijay Kumar: Within couple of months at least.

Prashant Sarkar: And then the case will go on but you cannot expedite the matter because see finally what happens is the investors are losing.

N R Ganti: That is true Prashant. But there is very little as a company we can do. As you know that you cannot go against the diktats of SEBI. When SEBI says in writing that you do not open offer even though the SAT has given the clearance, there is very little you can do except fall in line.

Prashant Sarkar: And in case, if it goes against you, then you have to give an open offer at a much higher price?

N R Ganti: We will see. Depends on Supreme Court's judgement.

Prashant Sarkar: This new order book what you are expecting, the margin would be better than this year or how is it? The margin you will not be compromising on the margins?

N R Ganti: Certainly not. It is not like we are trying to get the market share by under selling ourselves.

Prashant Sarkar: So basically, as your capacity utilization goes up, there should be a disproportionate increase in the top-line and the bottom line even more as it is shown. It is going down much more because your capacity utilization is low.

N R Ganti: Obviously, it is a volume gain. The moment you cross your breakeven, every additional tonnage that you manufacture gives you higher profit.

Moderator Thank you. Sir, at this moment we do not have any further questions from participants.

N R Ganti: Thank you very much ladies and gentlemen. Thanks for participating.

Moderator: Thank you.

Moderator Thank you Sir. On behalf of Pitti Laminations that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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Note: This document has been edited to improve readability