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# Earnings Conference Call

## Q4 and Full Year FY2014

June 2, 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 Q4 and Full Year 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 this 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 move forward 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** Good evening and welcome everyone to our Q4 and Full Year FY2014 Earnings Call. I have with me on the call today Mr. Vijay Kumar – Executive Director and CFO. We were expecting our Vice Chairman and Managing Director, Mr. Akshay Pitti also to be present but unfortunately he has been held up in some other meetings. 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.

During the year, Indian economy remained under pressure due to low levels of industrial and infrastructure investments. The index of industrial production (IIP) growth of FY2014 declined marginally by 0.1% compared to the same period last year. This performance was primarily due to subdued performance of strategic sectors such as mining and manufacturing which declined by 0.8% each during the same period. The capital goods sector declined by 3.7% compared to FY2013 due to weak demand and investment conditions.

However, during the latter part of the year we experienced some early signs of improvement driven by betterment in the key economic indicators such as inflation and current account deficit. These improving trends are reflected in our performance during the quarter. Our revenue for the quarter was Rs. 664 million, an increase of 36.3% compared to Q3 FY2014. Of the total sales domestic sales accounted for Rs. 416 million, an increase of 2.8% y-o-y and

0.5% sequentially. Our export sales for the quarter were Rs. 293 million, indicating a growth of 172.2% compared to Q3 FY2013 and a decline of 19.2% y-o-y. Our export revenue has benefited from strong volume growth, due to improvement in demand from international clients. Total volumes for the quarter were 4,279 metric tons, a sequential increase of 33%. In terms of volume breakup, domestic and export volumes for the quarter were 2,972 metric tons and 1,357 metric tons respectively. Domestic and export volumes recorded sequential growth of 5.8% and 197.9% respectively.

EBITDA for the quarter increased by 19.9% sequentially to Rs. 61 million. This improvement in EBITDA was due to better export revenues supported with lower cost of raw material as we experienced some early cost synergies from smaller laminations. The EBITDA margin for the quarter was 9.2% compared to 10.4% in Q3 FY2014. The margins are expected to improve going forward driven by better export volumes and increased contribution from smaller lamination segment.

Our financial expenses for the quarter declined significantly by 25% y-o-y and 8% sequentially to Rs. 24 million. This decline was due to debt repayment and better utilization of working capital. PAT for the quarter improved significantly to Rs. 20 million compared to Rs. 3 million last quarter. This improvement was driven by higher operating profits and variable foreign exchange variations. PAT margins for the quarter were 3%.

Moving to discussion on our full year performance, our revenue for FY2014 was Rs. 2,478 million, a decline of 20% compared to the same period last year. Total volumes for the year declined by 23% to 15,055 MT. This decline in volume was due to postponement of orders from international client in prior quarters. The situation has now improved and we expect steady volume growth going forward. EBITDA for the year declined by 20% to Rs. 327 million compared to FY2013. However, the EBITDA margins remained flat at 13.2%. PAT for the year was Rs. 42 million compared to Rs. 98 million in financial year 2013. The PAT for the year was impacted by unfavorable foreign exchange fluctuations of Rs. 90.7 million. Factoring the impact of foreign exchange variations adjusted PAT for the year increased by 19% to Rs. 133 million. Adjusted PAT margin for the year was 5.4%, an increase of 177 basis points.

The Board of Directors have also recommended a dividend of Rs. 1 per share subject to shareholders' approval. The face value of the share as you all are aware is Rs. 10.

We are very comfortable with our current capital structure. As of 31st March 2014, our total debt was Rs. 1,152 million and cash and cash equivalents of Rs. 95 million, resulting in net debt of Rs. 1,058 million. Our net debt increased by around 28% compared to Q3 FY2014 with higher working capital requirements driven by improvement in export business. The net worth of the company was Rs. 1,116 million at the end of the quarter. As of March 31st, 2014 we have a conservative leverage with a total debt to equity of 1.0x.

In the context of the prevailing difficult economic scenario, our performance for the quarter was encouraging. Driven by the early signs of economic revival during later part of the year, we are experiencing increased off-take from most of the clients which have earlier delayed the delivery. Our smaller lamination consumer business segment is also progressing well and we are starting to realize meaningful raw material cost synergy. However, we expect full benefits on the segment to accrue from Q1 FY2015. Based on our current order book and reviving macroeconomic strength the management expects to maintain steady growth going forward.

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

**Moderator** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Dimple Sheth from SKS Capital. Please go ahead.

**Dimple Sheth** Sir, what kind of volume growth are we expecting in FY2015 and in Q1 FY2015?

**Vijay Kumar** First quarter of FY2015 we are expecting 5,000 tons plus.

**Dimple Sheth** And sir you are planning to close the year with what kind of volume growth?

**Vijay Kumar** 20,000 tons plus.

**Dimple Sheth** Sir have the realizations improved compared to the previous quarters in this quarter?

**N R Ganti** Realizations as in sale value?

**Dimple Sheth** Yes sir, realization in your different segments.

**N R Ganti** Realizations will remain more or less the same because there are long term contractual sale prices. Higher volumes will result in better realization. As you know once fixed cost is taken care off then the profit margins improve as the volumes increases.

**Dimple Sheth** Yes sir. What is your volume breakup in terms of geography for FY2014?

**Vijay Kumar** Volume point of view 68% India and 32% international volume.

**Dimple Sheth** And sir in terms of value.

**Vijay Kumar** 60% India and 40% international.

**Dimple Sheth** Sir in the previous conference call you were saying that you would look more towards the export markets.

**N R Ganti** Yes, the export markets recovery started from January onwards and February onwards it is reflected on our results. You can see that Q4 FY2014 had a good jump compared to Q3 FY2014 in export revenue. And this quarter also we are doing reasonably well. This year we will do better volume for export business compared to FY2014.

**Dimple Sheth** What is the mix you are expecting in FY2015 for your international and domestic sales volume?

**N R Ganti** Approximately 40% - 60% respectively.

**Vijay Kumar** Value wise 50-50 we can expect.

**Dimple Sheth** And sir volume wise?

**Vijay Kumar** 40% international and 60% domestic.

**Dimple Sheth** One more question, will the appreciation of rupee impact our profitability?

**Vijay Kumar** It will impact, the profitability will increase. As Ganti Sir said, the fixed cost will remain the same overall, so automatically the profit margins will increase.

**N R Ganti** Can you please repeat your question?

**Dimple Sheth** Rupee is expected to appreciate now, so now if you still have more of exports, so then would you not be having forex losses or you would be hedging your position?

**N R Ganti** We will be hedging anyway but our price fixation is dependent on rupee-dollar parity and the raw material cost and the forward booking cost. They are all factored into that. And so the profitability per se is not going to be impacted but the top-line might decrease because of the value of rupee vs

Dollar. But profitability is predetermined, the profit margins as a percentage are more or less fixed.

**Dimple Sheth** GE is your major client in terms of international business and I think it accounts for around 90% of your international revenues and last quarter was not good because we had certain postponement of orders. So, what is the outlook of GE now and how much order have we already booked from the client?

**Vijay Kumar** GE is our main customers internationally. As I said from February onwards they are also looking well and this year we are getting reasonable outlook. So we will receive whatever we –planned for.

**Dimple Sheth** Any quantum if you could tell me so that if I can compare on what you have received till now and what order we had received earlier?

**N R Ganti** I cannot specifically provide you the quantum. But I can say that prospects are better.

**Dimple Sheth** What is your order book currently standing at?

**Vijay Kumar** We have a 6-months order book only. 6 months tentative and 3 months confirmation is generally what we have. For this quarter and next quarter we are doing fairly well compared to last year.

**Dimple Sheth** Any numbers you can share, your quantum of order book?

**Vijay Kumar** As I told you, first quarter we are expecting 5,000MT plus. Normally, first quarter is always a dull quarter historically but this year first quarter itself we are doing 5,000MT plus. Second quarter we will do better than first quarter.

**Dimple Sheth** Historically the first quarter is dull?

**Vijay Kumar** Yes, this has been the trend.

**Dimple Sheth** And sir how is your consumer business panning out, I mean you are going into consumer laminations also, so how is that panning out?

**N R Ganti** It is definitely looking better.

**Vijay Kumar:** We are in the initial stages and still some of machines have to come, we have already placed order for the machinery.

**Dimple Sheth** Sir, in the previous call you had said that the synergies will start picking up from the first quarter of FY2015 in terms of raw materials. So, are we getting in those synergies and when we expect its impact on your profitability?

**Vijay Kumar** Few machines have already been installed and some business has already started. Some more machines have to come and we are expecting those machines by July and August, post that we can expect the volume growth in that business.

**Dimple Sheth** So sir we can expect its impact on the profitability in the top-line from the second quarter of this year?

**Vijay Kumar** Yes.

**Dimple Sheth** Any debt repayments were due during this year?

**N R Ganti** No.

**Dimple Sheth** For FY2015 are we paying any debt?

**N R Ganti** Any term loan is supposed to be paid in quarterly instalments. So whatever has been contracted we will keep repaying.

**Dimple Sheth** Sir, can you share the amount of repayment during the year?

**Vijay Kumar** I cannot offhand recollect.

**Dimple Sheth** Ballpark figure.

**Vijay Kumar** This year around 4 crores term loans repayment will be there.

**Dimple Sheth** And sir any Capex you are planning further?

**Vijay Kumar** This year we are planning some Capex of around 8 crores to 10 crores, not more than that. We will plan after second quarter.

**Dimple Sheth** Capex will come after third quarter and that will be for?

**Vijay Kumar** Already last year we had planned for Capex of around 16 crores towards machines, which came in March only. We started getting the benefits from this year only. This year we are not planning any major Capex. May be after seeing the nine month performance strength, we can plan something depending upon the customer requirements.

**Dimple Sheth** Sir there was an article where it said that Pitti Laminations currently the machining process is being outsourced and you are going to bring in that in-house, that will reduce your cycle time and it will also reduce your cost. So is that happening sir?

**Vijay Kumar** Yes, it has happened already. Whatever last two years we invested more than 35 crores, only to increase the machining capacities. Those things are already on place.

**Dimple Sheth** And sir its gradual impact we are expecting in the second half of this year?

**Vijay Kumar** You are right.

**Dimple Sheth** What will be the outlook in terms of your margin and your top-line growth this year?

**Vijay Kumar** As I told you the volumes 20,000 tons plus will be there conservatively and topline will increase proportionately along with volume. For that I cannot give the exact numbers.

**Dimple Sheth** And this time there was a dip in the margins, so are we expecting the same margins or we expect any improvement in the same?

**Vijay Kumar** Better margins will be there. Last year due to forex loss we were not able to achieve better margins. This year hopefully there will not be much fluctuation in forex like last year, and then we will do fairly well.

**Moderator** Our next question is from the line of Ritesh Mistry from Money Bee Advisor. Please go ahead.

**Ritesh Mistry** I have a question on open offer. What is the status of open offer?

**N R Ganti** Open offer status remains status quo. 30th June is the date given by Supreme Court for SEBI to submit their counter argument. You are familiar with the past that the SAT has given an order in our favour and SEBI has contested it.

**Moderator** Our next question is from the line of Dimple Sheth from SKS Capital. Please go ahead.

**Dimple Sheth** Sir one more question is on the postponement of order. We saw the postponement of orders even in the 9 months and even in the year end. So are we seeing any further postponement of orders in your order book which will hamper your top line?

**N R Ganti** No, the postponement is no longer a concern. The orders are getting released slowly.

**Dimple Sheth** Does GE place on 6-monthly orders or it places long term orders? Wanted to understand how does it go about?

**Vijay Kumar** Every quarter they provide six months projected order. Three months confirmed order and six months projections. It is a rolling forecast for every quarter.

**Moderator** As there are no further questions, I would like to hand the floor over to Mr. N R Ganti for closing comments. Please go ahead sir.

**N R Ganti** Thank you ladies and gentlemen for participating. I hope that we have clarified all your doubts and looking forward to see you in the next quarter. Thank you.

**Moderator** Thank you sir. Ladies and gentlemen on behalf of Pitti Laminations Limited we conclude this conference call. Thank you for joining us. You may now disconnect your lines.

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*For further information, please contact:*


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|---|---|
| GVSN Kumar, Executive Director & CFO<br>*Pitti Laminations* | vijay.kumar@pittilam.com<br>*+91 40 2331 2774* |
| Bijay Sharma<br>*Churchgate Partners* | bijay@churchgatepartnersindia.com<br>*+91 22 3953 7444* |


*Note: This document has been edited to improve readability*