


PITTI
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Earnings Conference Call

Q1 FY2014

August 12, 2013

Management:

Mr. N R Ganti, Director

Mr. Vijay Kumar, Chief Financial Officer

Moderator Ladies and gentleman, good day and welcome to the Pitti Laminations' Q1 FY2014 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. Should you need assistance during this conference call, please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded. Joining us on the call today are Mr. N R Ganti – Director and Mr. Vijay Kumar – 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 consideration, 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 afternoon to all of you and thank you for joining our Q1 FY2014 Earnings Call. I am also joined by Mr. Vijay Kumar – our CFO. We both do hope that you had a chance to review our results presentation which is also available on our website. I would like to start the call with an overview of this quarter's financials and also cover our key strategic developments and operational performance for the first quarter. We look forward to an interactive Q&A session post that. As you are all aware, that the prevailing market condition continues to remain difficult, index of industrial production declined by 1.6% in May compared to a year ago. The sharp decline from April 1.9% growth is expected to impact the GDP growth in the first quarter of FY2013. A contraction across all sectors basic capital as well as consumer goods were last observed in February 2009. The current slowdown in the industrial sector is a reflection of both slowing investments as well as sustained moderation in consumption demand.

In the context of this difficult environment and cyclically slow quarter, we recorded quarterly sales of Rs. 640 million, a decline of 15% year-on-year. Of the total sales, domestic sales contributed Rs. 337 million and export sales stood at Rs. 303 million. Growth profiles have varied significantly between domestic and export markets. Export markets remain stable with a 0.5% year-on-year growth. Domestic sales were impacted by cyclicality and declined 25.4% year-on-year.

Overall volumes stood at approximately 3,739 metric tonnes, a decline of 25.2% year-on-year. Export sales remained stable at 1,287 metric tonnes representing a marginal decline of 0.9% whereas the domestic volumes declined by 33.7% to 2,452 metric tonnes. Stator frames sales increased from 170 Q4 FY2013 and 139 in Q1 FY2013 to 193 in Q1 FY2014.

As discussed during our previous calls that we are working on evaluating and implementing cost efficiency measures including lean manufacturing process. All of these efforts have started to show results in terms of cost optimization and savings.

Consequently despite of weak top-line, our EBITDA of 99.6 million for the quarter represented an increase of 18.7%, quarter-on-quarter and a decline of only 5.4% year-on-year. Our Q1 FY2014 margin of 15.6% represents a significant improvement of 425 basis points sequentially and 139 basis points compared to last year.

During the last quarter, Indian rupee depreciated significantly against US dollar as you are all aware. These resulted in a foreign currency loss of Rs. 41.6 million in Q1 FY2014, Rs. 27.5 million in Q1 FY2013 and a gain of Rs. 23.3 million in Q4 FY2013. Adjusted for this FOREX loss or gain, PAT for the period increased by 35.4% year-on-year and over 6x sequentially. Interest expense for the quarter was Rs. 26 million, a decline of 19% quarter-on-quarter and 39% year-on-year.

In our export market we have introduced range of products for trial runs. We expect to start supplying commercial quantities by the end of Q3 FY2014. During the past few quarters, we have made investments to enhance and diversify our capabilities into machining and casting. The enhanced capabilities will become operational by Q3 FY2014. This will result in enhanced product portfolio in machining and casting division as well. It will also result in enhanced revenue and margin contribution going forward. This is what we are expecting and this is what we have planned for. I 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. First question is from the line of Mr. Ritesh Mistry from Captree. Please go ahead.

Ipshita This is Ipshita from Captree. So what does the current business scenario look like? I mean it's been quite tough till now. So any kind of improvement that we are seeing or the environment continues to be as challenging as earlier?

N. R. Ganti I am afraid for the next quarter or so we expect it to be muted. However, there is some visibility of improvement during the end of the year, primarily on export front.

Ipshita Exports, you are talking about volumes or in general sales?

N. R. Ganti Volumes will translate to sale numbers. If volumes are better, obviously our top-line will be better.

Ipshita We do expect to get some kind of benefit of this rupee deprecation as well?

N. R. Ganti Very unlikely. In the past also we had explained to you that regardless of dollar - rupee fluctuation, we do cover most of our exports and imports. So therefore we are covered for our profit margins. So whatever we budgeted for, once we have that rupee locked in that will take care of our operational costs. This is actually being reflected in the FOREX loss or gain. So mark to market impact needs to be reflected in the balance sheet. There is very little you could do about it. Nevertheless we are consulting to FOREX experts and try and see whether we can mitigate even those notional fluctuations as well.

Ipshita And as far as the domestic business is concerned, still no kind of uptick we are seeing?

N. R. Ganti The scenario is not very optimistic at this point. However, sooner or later the market should improve. It can't be like this for ever.

Ipshita And sir can you throw some light on the current power scenario. Are we still facing those 6 hourly power cuts that we were having in the previous quarter?

N. R. Ganti Lot of relief now as the power cuts have been officially lifted. Over and above this we are also making some additional efforts to see whether we can buy power from private suppliers. Right now power doesn't seem to be big botheration.

Ipshita	So right now we are not facing any issues due to the gen sets. Earlier there were few machines which we could not run. So we were able to manage with the private part?
N. R. Ganti	Now those things are behind us. At least the power is more stable.
Ipshita	And GE order, have we seen any further postponement of orders from their end or how is it like?
N. R. Ganti	Not so much postponement but their off take has been lower than what they have originally indicated like say 6 months ago. That's again linked to their global demand. So what they normally do is they give you an indication to what will be their yearly off take and then break it down into quarterly forecast. That has been little more muted. So one would assume that at some point of time, it will start picking up but right now definitely it is on a lower side. That's why you see export numbers are not that exciting.
Ipshita	And sir, during the last concall also we had spoken about the open offer. You had mentioned that we were expecting some kind of verdict or something to be coming out in the month of July I guess?
N. R. Ganti	That has been postponed to September Ipshita. SAT, postponed the hearing to 10th September.
Ipshita	And sir what about the casting company, how is that faring?
N. R. Ganti	Though it is no longer a subsidiary company, we do keep an eye on its performance in view of our significant interest. Now that power scenario has improved they are expected to do better, once the general industrial scenario improves.
Ipshita	Has it become EBITDA positive till now or it is still operationally not able to manage the operations as much?
Vijay Kumar	This is Vijay Kumar. Since one month, the power problems have little bit eased out. So now the volumes are increasing. So hopefully by December – January, good volumes will come then we will be EBITDA positive.

Moderator We have the question from the line of Mr. Jainel Zaveri from J&J holdings. Please go ahead.

Jainel Zaveri I just had one question, basically last conference call, we had volumes of around, 24,000 expected for FY2014. What is it now like what is the expectation that we have for the whole year?

N R Ganti Going by what we have for the current quarter that is first quarter and the visibility for the next quarter, I think we would be around 20,000 – 21,000 for the year, unless things significantly improve in the last 2 quarters. Usually the third and fourth quarter is the best for our business. Fourth quarter is good for domestic market and third quarter for export market. Most of our export customers have calendar year as their closing year, so usually their off take during October-December quarter is a lot better.

Jainel Zaveri And what are the EBITDA margins that we would expect in terms of our sales.

N R Ganti As we know EBITDA margins will be a function of what the total volumes have been. Going by whatever cost saving measures we have undertaken, I think we should continue to have similar margins that we have currently booked this quarter.

Jainel Zaveri EBITDA margins will be same as this quarter?

N R Ganti That's our endeavour.

Jainel Zaveri And what is the current utilization rate that we have?

N R Ganti As in capacity utilization?

Jainel Zaveri yes.

N R Ganti It will be roughly 75% but it also depends on the kind of models that we end up doing. So it is more complex models which of course have a higher yield and better margin. So it tends to give you lower tonnages. Its simpler operations or heavier ones will give you more tonnes but then the margins are lower obviously because they are value add is not so much there. We have so many complex products. So it can't be really tied up to capacity utilization in the normal sense of the word.

Jainel Zaveri But currently as we stand is around 75%?

N R Ganti Yes that would be definitely a good index.

Moderator At this moment we don't have further questions.

N R Ganti Thank you so much for your participation. I trust the information provided has been adequate. Incase you have any feedback I would like to have that too. Let us know if you want us to include anything in the presentation, so we could try and do that next time. Thank you.

Moderator Thank you sir. On behalf of Pitti Laminations Limited, 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