



“Pitti Laminations Limited Q3FY13 Results Conference Call”

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MANAGEMENT: **MR. N.R. GANTI – DIRECTOR, PITTI LAMINATIONS LIMITED**
 MR. G. VIJAY KUMAR – CFO, PITTI LAMINATIONS LIMITED

Moderator

Ladies and gentlemen good day and welcome to the Pitti Laminations Limited Q3FY13 Earnings conference call. We have with us today Mr. N R Ganti – Director and Mr. Vijay Kumar – CFO of Pitti Laminations. As a reminder for the duration of the conference, 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 the conference call, you may signal for an operator by pressing '*' and then '0' on your touchtone telephone. Please note this conference is being recorded. I would now like to hand over the conference call to Mr. N.R. Ganti. Thank you and over to you sir.

N.R. Ganti

Good evening. This is Ganti and I have my colleague Mr. Vijay Kumar joining us on this call. For the current quarter, as predicted last time, we have seen subdued results reflecting the overall outlook.

Just to quickly go through the numbers for the sake of clarity. In December, we had domestic sales of Rs 36.7 crores and export sales of Rs 45 crores aggregating to Rs 81.7 crores of total sales, which compared with September 2012 which was the previous quarter, we had a domestic sales of Rs 43 crores and exports of Rs 47 crores amounting to about Rs 90 crores. I think we have a 9% dip in the total sales. On the profitability side, in the current quarter i.e. December 2012, we have a PAT of Rs 1.93 crores as compared to Rs 3.87 crore in the last quarter.

One interesting fact I would like to share here is relating to the finance cost. If you notice, for this quarter, Rs 6.3 crore was the total finance cost whereas in September 2012, it was only Rs 3.67 crore. You might be wondering as to why there is such a significant increase in the finance costs. We will break it down into two parts which is

what we do on an internal basis. The first part is the actual interest and bank charges and the other is the finance cost related to forex losses or gains. In December 2012, we had a FOREX loss of about Rs 1.92 crores and the actual interest cost or bank related costs of Rs 4 crores and Rs 37 lakhs total amounting to Rs 6 crores 30 lakhs. In September 2012, we had a FOREX gain of Rs 1 crores and interest costs of Rs 4.69 crores, therefore, the finance costs was Rs 3.67 crores and in December it was Rs 6.30 crores. There is actually a swing of Rs 2.90 crores in forex costs. If you actually knock this off, our performance in this quarter versus September 2012 quarter, though the sales fell by 9 odd percent, in terms of profitability, our performance has not been bad. The reason is that we have made significant savings in finance costs because of the reduction in the interest rates. Actually the working capital average interest rates have been around 9.5% last year which has now been reduced to 7.4%. A part of this is being reflected in this quarter's performance. However, a very significant portion will continue to reflect as we go forward. Similarly, on term loans, we had 14% average interest cost which has been reduced to 13%. This has come about because of our continuous efforts with our bankers and our credit rating being updated. Hence, we have started enjoying better ratings and better interest rates, so we hope to gain something out of this as we move ahead. Now, if you look at the total 9 months ended as of December 2012, we had total domestic sales of Rs 131 crore as compared to the last year's 9 months for the same period, our domestic sales was Rs 117 crore . Hence, there was a slight improvement in domestic sales on a y-o-y basis. However, our export sales was Rs 201 crores for 9 months ended Dec 2011 as compared to Rs 122 crores this year. Hence, totally where we had Rs 319 crores last year for the 9 months period December 2011, current year we have made only Rs 253 crores. There is a 20% reduction in overall sales and exports actually fell by

close to 39% so that has majorly impacted the 9 month performance. Similarly if you look at the profitability part of it, we have made a net profit of Rs 6.69 crore for 9-month ending December 2012 whereas it was Rs 16-odd crores for the same period last year. This was mainly due to forex losses, but however interest costs are in line with our activities. In fact, earlier, the interest costs have been subdued at least for the September quarter, whereas in the rest of the quarters they were similar in line with the previous quarters. But because of the lower volumes of operations and the additional cost of manufacturing, there is a difference of Rs 10 odd crores in our net profits.

And if you quickly go through the sales numbers in quantity terms, in Q3, export was 1828 metric tons, whereas domestic was 2743 tons totaling to about 4571 tons. In Q2 i.e. September 2012, exports was 1826. Therefore, exports have more or less remained constant in the last two quarters. However, domestic sales was 3362 tons totaling to 5188 for September quarter. Stator Frames Sales in Q3 we had 340 and in Q2 we had 302, so there is definitely some improvement in December. For the 9 months of 2012-13 ending December, we had total exports of 4953 tons and domestic was about 9803 tons which totally is about 14756 tons. Whereas last year in the same period, export was 9128 tons and domestic was 9640 tons aggregating to 18768 tons. As you can see the domestic performance is more or less consistent but exports have taken a significant dip by about 45-46%. Stator Frames for current 9 months is 781, whereas last year around this time we had 874. So basically the export numbers have dropped not because we had something to do with it but it is just that some of orders of our major customers have been kept on hold which is what we had explained the last time as well. There are some orders trickling in. It is nowhere near to what we had anticipated at the beginning of the year, hence we believe that it is going to be like this

for the next two quarters. We did not see any major amount of change in our order book position and it will continue to be subdued for the coming quarter as well as the first quarter of next year. However we expect things to improve in a better way going by what we hear from our customers about the market situation.

I would also like to share a significant development. There is a crack team which has been formed, under Sri Akshay Pitti, and they are looking into improving the operational efficiency. In fact, they are deeply dwelling into every line of expenditure and trying to rationalize them. Hence the first outcome of this has been reduction in the interest rates and we are also looking at improving the machine utilization, manpower reduction & rationalizing every cost aspect of it. In that endeavor, we had actually engaged Ernst & Young to completely go through all the standard operating procedures & rewrite them which is in process. Hence we are trying to mitigate the sudden downturn in the market condition. While there is nothing much that we can do about it, unless the market sentiment improves and the overall global sentiment improves, we do believe that this is likely to be there for the next 3 to 4 months and therefore the only thing that we could probably do is that we can stay competitive and manage our costs in terms of reduction in our raw material holdings, inventory holdings, people's cost, finance costs and optimize all other things. We expect this will yield pretty good results and we will see the benefits as we go forward in the next 2 to 3 quarters.

I am not going into percentage wise comparisons because I am sure you all would have done your homework. So basically this is what we have achieved in this current quarter. I will leave the floor open for any questions from your side.

Moderator Participants we will now begin with the question and answer session. We have our first question from the line of Mr. Rajeev Desai from IFCI, please go ahead.

Rajeev Desai The first question is based on your operations. You said, in the last quarter, there was a problem with GE exports and numbers are down in this quarter as well which is being reflected in your numbers. Would this be continuing in the next year as well? Are there some major orders for which one of their assemblies have backtracked because GE had the policy of taking the operations back to their homeland. If I remember, it was in June/July/August policies they had come out with it, so is it in line with that and do we expect this downturn to affect the company. Secondly, are there any pricing problems also with respect to domestic sales because your average rate has not been higher or you have not been able to appreciate your price for the same volumes?

N.R. Ganti Sorry about this pricing issue, can you repeat your question?

Rajeev Desai Pricing is basically lower for some of the components, has it been lower or has it remained flat, this is what I wanted to understand? Thirdly, why your employee costs have increased significantly in this quarter?

N.R. Ganti Let me clarify about the GE exports. While their policy maybe to take it back home, maybe they want to do it seriously, but it has not been conveyed in any absolute terms to us. While they have communicated to us about the global downturn and their own orders have been kept on hold and so on, but seriously we do not really get worried about whether the entire thing can be shifted back to US as they do not have the wherewithal at this point in time. Second is that the costs are going to be different for them, despite whatever they pay us, I do

not think it makes any commercial sense to them. Anyway, maybe if it is a mandate from the government etc., it may be different, but at this point in time, we do not see that as any concern.

Rajeev Desai

Then why are your exports declining?

N.R. Ganti

Exports are declining because basically of their own exports. GE operates worldwide, so basically they source it from us not entirely for their own country, and they supply to a lot of third world countries as well. Actually they participate in global bids and as a part of that, they source certain items from us. While that has taken a backseat because of the global scenario, they hold back some of their requirements. Other than that, these exports have dipped only because of the global scenario, nothing to do with GE prospects.

Rajeev Desai

But then GE is a major client of yours?

G. Vijay Kumar

No, GE has several arms. Like we already explained to you, GE is one of our critical clients, GE has several subsidiary companies which are a part of the GE conglomerate. But as far as we are concerned, they are a different entity where one is based in Mexico, one is based in US, Canada, so all of them act independently. Then regarding the pricing problems on the domestic front, many times we have explained that we have a price variation clause with our customers. Wherever there is a significant increase in our raw material cost, then we do get price increases from our customers and vice versa, if there are any benefits in the raw material cost, we do pass it on to them. Hence we do not see pricing as an issue. In fact, I think all our customers do pay us a decent amount of margin. As you know, the raw material costs are the highest part of our cost of production. Hence we have that protective clause and the rest is operational efficiency which we try to improve at all the time. Hence the domestic pricing problem also is

not an issue at this point in time. As far as employee costs are concerned, yes, it is high because last year we had started planning for the current year. We internally had 30 odd thousand tons production our internal target & last year we did about 25000 tons. In the current year, to do 30 odd thousand tons production a lot of people were taken in, the entire thing was ramped up for such a target. As I said earlier, we started downsizing and trying to rationalize our costs and hence we reemploy, redeploy people, so I think as we move ahead, the costs are going to be lower.

Rajeev Desai

One more question basically on your interest costs?

N.R. Ganti

Interest costs have come down, as it was explained to you, interest which includes bank charges and interest for the December quarter is Rs 4.37 crores and in September quarter it was Rs 4.69 crores. This is despite slight increase in the total borrowings.

Rajeev Desai

What is your borrowing right now?

N.R. Ganti

Right now it is about Rs 150 crores of working capital. I mean total debt is Rs 150 odd crores. In September it was around Rs 160 crores.

Rajeev Desai

And is the average cost around 13%?

N.R. Ganti

Average cost of working capital was 9.5% last year, now it has been brought down to 7.4%. There is a 2% drop in working capital cost. It includes exports and domestic related financing. Term loan from 14 odd percent has come down to 13 odd percent.

Rajeev Desai

Coming to your forex loss, can I know how much is the forex currency which is hedged or unhedged?

N.R. Ganti

The forex policy is simple. Whatever exports we have, they are locked in forward cover. What it means is that when we do our costing to GE, we take our imported costs, material cost and then we do all our internal operations cost added to that, we add our profit margin, arrive at a rupee-dollar parity and then have a quote for a particular price in dollars. Once that is agreed by GE, then we lock that price with our bankers. Now regardless of how the foreign exchange movement is, whatever the profit in terms of rupees, what we have already started off will get protected. Wherever there is an export and import happening around the same time, we keep it open because there is a cost of covering both ways. So in that sense we are completely hedged. We do not leave anything open. We do not have a FOREX loss because we have not covered concept. The FOREX loss or gain is despite having the forward cover. Suppose today you are taking a forward cover to Rs. 55, on the days actually, we will get paid, if the dollar has moved to Rs. 57, there is a notional loss of Rs. 2, which we have to reckon as per accounting standards and vice versa. On that day if it is Rs. 51 then it becomes a profit for you. But in our books, on the cash flow part of it, it does not really affect. So whatever is the FOREX loss or gain we are providing is not on account of open position, it is because the rupee movement that has impacted because certain bills are still open to be paid, but they are under cover. They are already in forward cover, but we have to make an accounting adjustment on that day, which is peculiar accounting standard, which is forcing us to show either a profit or a loss. Actually if you look at the cash impact, it is 0. Do I make myself clear?

Moderator

Our next question is from the line Mr. Ritesh Mistry from Captree Advisors, please go ahead.

Ritesh Mistry

I have a question regarding the subsidiary company, broadly up to 31st December we have done a turnover of around Rs 18 crores. Moving ahead, how is this going to impact the consolidated results?

N.R. Ganti

I am glad you brought it up. Basically we do not see a great amount of improvement in subsidiaries operations for two reasons. The first reason is the power related problem. As you know, AP and most of the southern states are suffering from power issues, but AP is adversely impacted. Our production is definitely less than 50 percent of our total capacity and we do not see any great amount of improvement in the coming 2 quarters till this electricity problem is resolved. While the government is trying to give power at a very expensive rate and we are also trying to do many things, hopefully in the next 4 to 5 months we should be able to address this problem. In terms of your other question of how does it impact the parent company, we have recently gone back to our shareholders through postal ballot, because PCPL, which is a subsidiary of PLL wanted to raise another Rs 1 crore as paid up capital. So they have issued 49% to other promoters by way of equity and 51% to Pitti Laminations by way of warrants. We do not intend converting those warrants to shares at this point in time so that it will go out of the company's wholly-owned subsidiary from that status, subsidiary status we want to move away, so that the shareholders of PLL are not impacted by the adverse performance of the subsidiary while retaining all the controls that we have on that company, because we have these warrants that are issued to PLL, which can be converted into equity at any point of time, so all the other benefits of having a new line of business and operational efficiency, while that continues to be there, because of the unforeseen, unintended consequences of the lack of power in that particular unit and foundry is a power intensive unit. Just to shield PLL investors from that, we thought we will move away

from the subsidiary status for a while and see how things progress. We can convert it to our subsidiary as and when we convert the warrants into equity shares. So that is the answer that we thought will be a good thing for the PLL investors and that particular resolution has been sent to all the shareholders through our postal ballot which will be concluded by around 27th of March, so therefore the need to consolidate March quarterly results with PLL may not be there.

Ritesh Mistry

Any update on open offer?

N.R. Ganti

We have published it and it is also there on our website. SEBI had made some observations that in 2005-2006, when Sri Akshay Pitti got some shares, he ought to have made an open offer at that point in time which our councils and our company secretaries had to disagree. So we have appealed against it, we have appealed in SAT and the case is pending. I think it will take its own time. SEBI is yet to clear the open offer document.

Moderator

Our next question is from the line Mr. Pranav Jhaveri from J&J Holdings, please go ahead.

Prashant

There are a couple of questions. In the last con-call the volumes expected were 22000 for the entire year FY13 and I think we have been at around 14000 till December, so now what is the outlook for FY13 and what volumes are you expecting?

N.R. Ganti

For FY13, I think we would be happy to close at around 19000 plus tons maybe 19400 or 19500.

Prashant

So it will not be 21000, it will be slightly less than that. The total debt you have mentioned is Rs 154 crores is it? Does this include long term as well as working capital?

- N.R. Ganti** Mostly it is working capital and long term is not much, actually long term loans are close to Rs 18 odd crores.
- Prashant** So the total interest paying debt is Rs 154 crores, and your average cost is about 12%?
- N.R. Ganti** We have not yet done the weighted average because it is more of working capital forms a significant portion of the debt. From 9.5% earlier, we are now currently at 7.4% and from a term loan of 14 odd percent, it is now 13 odd percent.
- Prashant** It would be substantially low because only Rs 18 crores is long term debt which is at about 13%. How much is your current capacity?
- N.R. Ganti** 30,000 tons.
- Prashant** Next year, what kind of capacity utilization are you looking at in FY14?
- N.R. Ganti** 28,000 plus. Last time also this question did crop up as to how do you see next year. It is still very unclear. I think as we go forward somewhere in April or May probably we will be able to draw up a good estimate. We draw our annual budgets somewhere in February-March. This year, we are not in a position to do any accurate estimate for the next year. Our own customers who are all the industry captains, their reading of the market also is not very clear. What we do is we talk to all our customers, basically 20 to 30 important customers, we have a fair idea as to what do they foresee, what total requirements are there and what will be our share of what they will need, then we gather and do our own internal estimate and then arrive at our internal productivity, production related capacity utilization estimate. We are not in a position to do that accurately at this point of time because our customers are not coming forward

with any accurate figures. Well, definitely the minimum will be 20,000 odd tons, but how much more can we do will be assessed as we move ahead.

Prashant So you feel this should be the bottom of the cycle?

N.R. Ganti We think so. Yes honestly we think that it should be like this.

Prashant The pain would last for one or two quarters?

N.R. Ganti Yes, after all this is infrastructure related industry and we are all into power distribution, generation, mining, infrastructure, and railways related industries, where all our motors go.

Prashant That would be for the local part but for the exports which is your main contributor, would you be structurally affected? Are you structurally affected because of problems at GE?

G. Vijay Kumar We are also exporting to the GE's different group companies. There is GE Power, GE Canada. there is also transportation, railways to Mexico and industrial motors to ERC which is the mining section. All these three subsidiaries in the USA and globally also they are not doing well. So it again boils down to infrastructure reforms that governments have taken. GE will supply to many Asian countries and Europe. Though we are supplying to GE Mexico and USA for manufacturing their main sets, ours is an intermediary product which they are sending the final product to wherever they have got the orders. Overall their orders are either deferred or pending because they have got huge orders but they are all deferred because many governments in Asia and Europe they have deferred their projects because of the global slowdown.

- N.R. Ganti** Just to add to what Mr. Vijay was saying, it is not as though things have come to a saturation point. There are things that need to be done has by all the world government bodies. Once that clarity comes in, I think GE will start giving fresh orders. They have not cancelled it. It is basically just a temporary deferment of orders.
- Prashant** Why has the finance cost gone up substantially from Rs 3.67 crores to Rs 6.3 crores?
- G. Vijay Kumar** I will just explain to you that in this quarter it is actually Rs 6.3 crores and last quarter was Rs 3.67 crores. I explained that there was a Rs 1.92 crore foreign exchange loss. If you will knock it off then just the banks charges in December quarter are Rs 4.37 crores and it was Rs 4.69 crores in the September quarter. Actually as per the SEBI rules, we have to include the forex gain or loss in the finance cost. That is creating a lot of confusion. In the initial discussion itself Mr. Ganti had clarified. In fact, last year the same period December quarter, it was Rs 5.87 crores finance cost, FOREX loss was Rs 4.35 crores whereas this time it is Rs 4.37 crores. Actually there has been a huge saving in the finance cost. The FOREX loss is again dependent on the position of the dollar rate.
- Prashant** Because of your foreign exchange loan on December 31st the dollar was 55, so that loss has been recorded here.
- G. Vijay Kumar** Actually majority is notional loss. I can say 80 to 90% is notional and it will have no effect on the cash flow.
- Prashant** In the promoter holding, some part of it is pledged, is this for the working capital facility you enjoyed or is it for personal purposes?
- G. Vijay Kumar** Shares have been pledged mainly for term loan and working capital only and nothing for personal purposes.

- N.R. Ganti** There is no personal borrowing. Wherever you have an opportunity, please do clarify this point to others because you might be talking to a few people. There is some misconception that it is for personal reasons. Sri Akshay Pitti or Sri Sharad.B. Pitti have never borrowed any money for their personal use against the shareholding of Pitti Laminations.
- Prashant** Have you put up the transcript of the last con-call on your website?
- G. Vijay Kumar** No. We have not uploaded.
- Prashant** Then I think in good practice, I would request you to upload our last con-call and this con-call transcript. We wish you all the very best.
- Moderator** As there are no further questions, I would now like to hand over the conference call to Mr. N.R. Ganti for closing comments.
- N.R. Ganti** Thank you very much for your patient hearing, I hope we have been able to clarify all your doubts and thank you for your valuable suggestions. We will try and put it this transcript on our website. Thank you for taking your time and coming and attending the call. Sri Akshay actually wanted to be here but he had some travel to do for both marketing as well as personal travel. Actually I have taken this call on his behalf, so please do indicate to everybody that Sri Akshay conveyed his regret for not being here.
- Moderator** Participants, with that we conclude the conference. Thank you for joining us. You may now disconnect your lines. Thank you.