



Earnings Conference Call

Q4 and Full Year FY2013

May 7, 2013

Management:

Mr. N R Ganti, Director

Mr. Vijay Kumar, Chief Financial Officer

Moderator

Ladies and gentlemen, good day and welcome to the Pitti Laminations Q4 and Full Year FY2013 Earnings Conference Call. As a reminder, all participants' line 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 * followed by 0 on your touchtone phone. Please note that this conference is being recorded. Joining us today on this call 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 such considerations, please refer to the earnings presentation. I would now like to hand the call to Mr. Ganti, over to you sir.

N. R. Ganti

Good evening to all of you and thank you for joining our Q4 and full year 2013 earnings call. My colleague, Mr. Vijay Kumar – CFO of the company is with me. Before we proceed, I would like to share with you that Mr. Akshay S Pitti our Vice Chairman and Managing Director who normally leads these calls is on a business trip. So I am standing in for him.

Mr. Vijay and I hope that you have 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 cover our key strategic development and operational performance for the year. We look forward to an interactive Q&A session post that.

You all know, and last time also we have touched upon this, that the overall economic environment remains challenging. Industrial growth has slipped to 0.6% in February compared to 2.4% growth in the previous month. This is mainly due to a contraction in power generation and mining output, and poor performance of the manufacturing sector. For the period April 2012 to February 2013, industrial production growth was only 0.9%, down from 3.5% in the same period of FY2011-12. Although, the capital goods segment grew 9.5%, the first expansion since October 2012, market remains cautious given the volatility and needs to be tracked over a long period of time.

In context of this difficult environment, we have managed to record quarterly sales of Rs. 741 million, a decline of only 4% sequentially. Of the total sales, domestic sales contributed to Rs. 391 million and

export sales stood at Rs. 350 million. Growth profiles have varied significantly between domestic and export markets. While domestic sales increased sequentially by 23%, in sharp contrast, the export sales declined by 23%. This increase in domestic sales is primarily on account of better volumes which stood at 3,253 metric tonnes compared to 2,743 metric tonnes in the last quarter or an increase of about 20%. However, exports sales were impacted by lower delivery volume due to postponements in the order book. Stator frames sales declined by 340 units in Q3 to 170 in Q4 FY2013.

Consequently, EBITDA of Rs. 84 million for the quarter represented a decrease of 25.5% quarter on quarter. This decline is attributed to lower revenues marginally offset by cost efficiency achieved by the Company. EBITDA margins stood at around 11%. PAT for the period increased by 63% sequentially. The Company registered a forex gain of Rs. 23 million compared to a loss of Rs. 19 million in the last quarter. Interest expense for the quarter was Rs. 33 million, a decline of nearly 25% quarter on quarter.

Overall, the last fiscal has been difficult from our financial results perspective with both revenues and profitability down significantly compared to FY2012. However, we actually touched upon this last quarter also, as we are working on with so many cost reduction measures and one of them also is to reduce the interest burden. We have successfully been able to negotiate with our banks to provide us better rates of interest. So there has been significant reduction in the finance cost.

As discussed during the last quarter's call, Mr. Akshay S Pitti established a dedicated team to evaluate and implement cost efficiency measures including lean manufacturing processes. We are happy to share that all of these efforts are resulting in cost optimization and savings from Q4 FY13 onwards. We expect that it will continue to add more to our cost reduction efforts. We also continue to work closely with Ernst & Young to enhance our operating procedures. In fact we discussed last time that Ernst & Young has been engaged to do a review of our SOPs and suggest wherever efficiencies can be made enhanced, so that will be reflected in the revised SOPs.

During the quarter we became an approved supplier to Chittaranjan Locomotive Works. This is a major development and enables us to

enter the railway sector in India. We have supplied prototype and expect to see favourable feedback. Our aim is to start supplying commercial quantities to CLW by the end of financial year 2014. Other high profile customer wins include Emerson and BEHL. BEHL of course has several units. Now what we added is with Jagdishpur and Haridwar in the lamination segment.

We are very happy to announce that we received the Best Supplier of the Year for 2012 award from GE. Incidentally GE has 8 business verticals across all geographies including Asia and North America and other geographical segments. Asia pacific is one major segment for them and we have been awarded as the best supplier across all the eight verticals for Asia pacific zone. This signifies that there will be a lot of business opportunities for us to address in other segments where we are not hitherto present. So kudos to our team for their performance for delivering quality product to the customers, which enabled us to get this prestigious award.

Coming to the full year performance, if we look at FY2012, we did about 25,000 tonnes and this year we ended up with only 19,700 tonnes, a decline of about 21%. Net sales declined from Rs. 4,080 million to Rs. 3,112 million, a reduction of about 23.7%. EBITDA was Rs. 630 million for FY2012, which reduced to 421 million in FY2013, a decline of 33.1%. If you look at EBITDA margin, in FY2012 we had 15.4% which is now reduced to 13.5% in FY2013. Profit after tax declined from 224 million to 98 million now. As we earlier mentioned that the volumes in exports were much lower, though we managed to get slightly better domestic sales.

Now I will open the question and answer session, post that we can conclude with our remarks.

Moderator

Thank you very much sir. We will now begin the question and answer session. Our first question is from the line of Ipshita Roy from Captree Equity Advisors, please go ahead.

Ipshita

Sir, could I have the volume breakup of domestic and exports.

N. R. Ganti

Certainly. For FY2012, the total volume was 25,000 tonnes, of which 11,800 odd tonnes was exports. For the FY2012-13, the volume of 19,700 tonnes included 6,637 of exports.

- Ipshita** Okay, alright so I mean almost a 50% decline there?
- N. R. Ganti** It is about 44%, from 11,800 to 6,637 tonnes.
- Ipshita** What is the status of the GE order? There was some postponement, so now what is the current status?
- N. R. Ganti** The GE orders are expected to be much better than what was last year. In fact our Vice-Chairman and Managing Director and, Executive Director are just concluding those meetings and we will have a lot more clarity once they are back. So what we gather from them is that the indications are there that uptake for this year will be definitely much higher, may be closed to 8,000 tonnes.
- Ipshita** Around 8,000 tonnes, okay. So can we just summarize and say that we have seen the worst or we feel that some more set back can be expected for another quarter or so?
- N. R. Ganti** No, we do believe that this is bottomed out. Generally the scenario around has also improved marginally. There are some signs of revival which are positive but exports definitely have not been that reassuring. So given that, we do believe that FY2012-13 probably is bottomed out.
- Vijay Kumar** This quarter may be flat and we are expecting good volumes increases from the Q2 onwards. We are also getting right signals from GE and Q2 onwards you can see the sales and volume growth.
- N. R. Ganti** Normally, I think the first quarter is somewhat subdued compared to the rest of the quarters. So nothing unusual about it so probably we will have the same kind of pattern.
- Ipshita** Okay, but will it be too premature to estimate what kind of growth we can probably expect in FY2014?
- N. R. Ganti** We can ensure that we will do 24,000 tonnes, but in terms of rupee, it is little difficult to estimate because we are yet to break it down into what would be the export. In the domestic side where we supply to our customer including the raw material cost, there are some customers who provide the raw material to us and we do the conversion for them. So it also depends on that as well. If you have more customers before that load then your top-line will be lower

because we would not have factored the cost of the raw material. So I think probably in a couple of month's time, may be next quarter when we meet then we will give you a take on that.

Ipshita What about your domestic business? It has still been able to maintain the growth, so what are we expecting and what is the current scenario? Is it some improvement coming up or is it still bit stagnant?

N. R. Ganti No, as I said from our 19,000 tonnes we are expecting to go up to 24,000 tonnes, but all that is not going to be on account of exports alone. We expect some improvement in domestic business as well.

Ipshita No. Has it already started showing or is just that we hope.

N. R. Ganti Basically we keep a constant touch with our existing customers. We get to know what their plans are and based on that we are optimistic that we will be slightly better off than the concluded year even in domestic sales.

Ipshita Yes and I guess with the adding up of two new clients, we expect some more clarity on growth?

N. R. Ganti It is a long customer acquisition cycle in our case. First we provide them with sample, and then they take the commercial samples, and then negotiation. It is not that we are banking too much on them. It just a good thing to happen because then eventually may be three quarters later it will start to pickup.

Ipshita So may be by the end of FY2014, we would expect the orders from the new clients to come up?

Vijay Kumar Exactly.

N. R. Ganti It's our endeavour to get close to our existing customers. We now have different new models getting approved and all that. So there is always a constant approach to our existing customer. It will not only increase the present volumes but also see what else we can do with them.

Ipshita What is the status of the open offer? I guess it has been going on for too long a period now?

- N. R. Ganti** The Open offer is awaiting before the Securities Appellate Tribunal (SAT). The subsequent hearing is scheduled to be held on 3rd week of June, 2013.
- Ipshita** So we hope that at least by the end of this quarter we will have a little more clarity?
- N. R. Ganti** Hopefully yes.
- Ipshita** So is the SAT the final authority or I mean whatever order it comes out with, will that hold good?
- N. R. Ganti** Supreme Court is final. As you are aware that we always respect the laws of the SAT. Depending upon the SAT decision either party can approach Supreme Court.
- Ipshita** What about the current electricity scenario? Any kind of improvement in the power sector?
- N. R. Ganti** Yes I think a lot of effort has been made by the government and things are beginning to look little better but overall situation is still not very comfortable.
- Ipshita** So are we still facing around 4-6 hour of power cuts?
- Vijay Kumar** For small scale industries the State Govt. lifted the power cuts. Whereas for our size of industries the Govt. not lifted the ban on power cut, but reduced to 3 to 4 hours .Pitti Laminations is not a power intensive company so we are able to manage. But still we have to bear generator power cost which affects our margins.
- N. R. Ganti** But it's not a huge cost impact.
- Ipshita** In FY12, our power cost is somewhat around Rs. 16 or 17 odd crores. So could you clarify what kind of an escalation we have faced because of this use of generator?
- Vijay Kumar** At least 30% more because of the use of generator. The generator power cost is costing us around Rs. 16-18 whereas government power cost is always Rs. 5 to 6 or below. The private sector is ready to supply at Rs. 9. Government is looking into those matters actively and we hope that we will get some positive solutions from the government.

- Ipshita** I guess we were trying to get into some kind of arrangement with the private players because some of our machines cannot be run on generators?
- Vijay Kumar** This is applicable to PCPL. In this regard we had a lengthy discussion in last con-call. Pitti Castings is certainly power intensive company, it requires continuous power supply. Hence Pitti Castings is going for dedicated power line.
- Ipshita** Okay so that is already underway.
- Vijay Kumar** Underway for Pitti Castings.
- Ipshita** What about the financials? If you could give us something?
- N. R. Ganti** For PCPL?
- Ipshita** Yes.
- N. R. Ganti** As you may be aware that PCPL ceased to be a subsidiary of Pitti Laminations Limited during last quarter. Actually they worked only for seven months in 2012-13, sometime in August it got taken over by us. So, roughly about 2,800 tonnes has been produced, yielding about Rs. 28 odd crores. I don't have the exact numbers. There was a net loss last year. As of current year, I believe that there projections are like in the range of 7,000 tonnes for manufacturing business, may be about Rs. 95 odd crores is the top-line. So with that kind of turnover, I think it is going to be profitable but marginally. There is visibility in terms of getting new orders, but we are little weary of closing all those orders because of power scenario.
- Moderator** Thank you. As there are no further questions, I would now like to hand over the conference over to Mr. N. R Ganti for closing comments. Thank you.
- N. R Ganti** Yes thank you. I believe that result presentation which has been uploaded on our website and probably shared with all of you in physical form has been detailed and probably gives you all the information that you would normally want to check out. I take it that since there are not too many questions, we did a good job of giving you all the relevant information. Thank you and hope to see you in the next quarter.

Vijay Kumar Thank you very much, we will catch up next time.

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

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