Pitti Engineering Limited
(Formerly Pitti Laminations Limited)
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www.pitti.in

PITTI

23rd August 2024

To,
BSE Limited
Floor 25, P J Towers, Dalal Street
Mumbai – 400 001

Scrip Code: 513519

To,
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

Scrip Code: PITTIENG

Dear Sir,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Transcript of the Audio Conference call for investors on 19th August 2024

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With reference to our letter dated 12th August 2024, intimating about the conference call with investors to be held on 19th August 2024, please find attached transcript of the aforesaid conference call.

The above information is also available on the website of the Company at www.pitti.in.

This is for your information and record.

Thanking you,

Yours faithfully,
For Pitti Engineering Limited

MARY MONICA BRAGANZA
Digitally signed by MARY MONICA BRAGANZA
Date: 2024.08.23 15:38:22 +05'30'

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"Pitti Engineering Limited
Q1 FY'25 Earnings Conference Call"
August 19, 2024

MANAGEMENT: **MR. AKSHAY PITTI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – PITTI ENGINEERING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Pitti Engineering's Q1 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, 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.

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 risks and uncertainties. For a list of such considerations, please refer to the earnings presentation.

I would now like to hand the call over to Mr. Akshay Pitti. Please go ahead, sir.

Akshay Pitti: Good evening and a warm welcome to the Q1 FY '25 earnings call. I will start with a brief overview of the performance during the quarter, followed by the Q&A session. We completed the acquisition of Bagadia Chaitra Industries Private Limited on 6th of May 2024. The financials up to date are consolidated for the period. Consolidated revenue for the quarter stood at INR386.71 crores, EBITDA was INR 56.35 crores and PAT was INR 20.55 crores. Total sales volume was 14,992 MT.

On a stand-alone basis, the revenue for the quarter grew by 21.92% to INR354.45 crores. EBITDA grew by 28.07% to INR54.34 crores. PAT grew by 41% to INR19.70 crores. Sales volume was 12,411 tons, up by 24.63%. Q1 FY '25 saw the highest ever volumes, revenue and EBITDA for the quarter. Blended EBITDA per ton was INR43,785. In Q1 FY '25, we have also accounted for onetime expenditures related to the BCIPL acquisition amounting to INR2.18 crores.

Installation of new capacities in our Aurangabad facility is in process and on track for commissioning by September. With this, our consolidated capacity will grow to 90,000 MT per annum. During the quarter, the Board had approved the fund raise of up to INR360 crores. I'm happy to note that we have successfully completed the same via QIP. These funds will go in a long way to strengthening our balance sheet and fuelling our future growth.

A quick update on the merger with Pitti Castings. The approval of NCLT is expected shortly, and we hope to conclude the same during this quarter. With a strong performance in quarter 1 and continued demand from almost all our customers, we have a very optimistic outlook for the rest of the year and hope to surpass our annual targets of 48,000 MT on a stand-alone basis and 63,000 MT on a consolidated basis.

I would now like to open the floor for the Q&A session.

Moderator: Our first question comes from the line of Balasubramanian from Arihant Capital.

Balasubramanian: Congratulations for good set of numbers. My first question is regarding the railway side, lot of railway players have given conservative guidance because lot of railway orders has been delayed. So just want to understand, we have exposure around 30% to 35% kind of business in railways. I just want to understand what kind of order intake we have and what kind of opportunities we have in coming years?

And sir, order book number is also not there in that PPT. Could you please share order book and short-term and long-term order mix? And what kind of order inflows we can expect in this year? This is my first question.

Akshay Pitti: Firstly, regarding the railway business. As you know, majority of our railway-related business is export oriented. If you see last financial year, about 25% of our total revenue from railway was from domestic, 75% was from export. Our exposure to direct Indian Railways supplies is only starting now. So we are not seeing any degrowth in our order intake. In fact, we are seeing more orders coming from railways going forward.

As far as the order book is concerned, like I mentioned, since we operate in a build-to-ship kind of a model to our customers, order book is not indicative of the strength of the business and its prospects for the current year. However, the total order book is around INR1,000 crores as of date.

Balasubramanian: So what is the short term and long-term mix?

Akshay Pitti: Long term would be about INR200 crores. This is a depleting order, which is onetime in nature and not an industry standard. This number will keep coming down as you keep consuming that?

Balasubramanian: Sir, we have added a new segment for pumps, so what kind of work we are doing?

Akshay Pitti: The pump segment has been added from the acquisition of Bagadia Chaitra Industries. A lot of their business at that company's level is for the agricultural pump set business. The major customer there is Texmo. And it's a good business. It's a good amount of ROCE.

Balasubramanian: Got it. Sir really this Dakshin Foundry, when we can expect the 3,300 metric tons, whether it is FY '26 or FY '27?

Akshay Pitti: Balasubramanian, I've already answered these questions in the call for Dakshin. However, for the sake of repetition, they are already doing about 3,000 tons per annum of utilization. So they will continue at that rate.

Moderator: Our next question comes from the line of Sani Vishe with Axis Securities.

Sani Vishe: Congratulations on another set of strong numbers. I have a few basic questions, sir. So one is, could you throw some light on the decline in exports revenue as compared to the earlier quarters? And similarly, we are also focusing on high value-added assemblies, which also have shown decline in traded volumes? So that's my first question.

Second is more of a bookkeeping question that EBITDA per ton declined for BCIPL, I understand it is because of some one-time expenses. So I just wanted to know whether we expect any repetition of such expenditure in the coming quarters? Or do we remain on track to improve EBITDA per ton for BCIPL?

Akshay Pitti: So firstly, on the revenue, on a sequential basis, yes, exports are down. But if you see on a Y-o-Y basis, exports are up. For the same period in FY '24, export revenue was INR91.96 crores. However, for the quarter 1, it's about INR106.64 crores.

Secondly, coming to your third question, which is the EBITDA per ton. EBITDA per ton, again, is actually higher than the same corresponding period of last year. And if I'm not mistaken, on a sequential basis also, it is higher than the previous quarter at INR43,785 per ton.

Sani Vishe: So for BCIPL, I'm looking at the presentation, the blended EBITDA per ton stood at INR7,204, which compares to the previous year quarter, INR11,356. So is there a misunderstanding on my side?

Akshay Pitti: See, in that, you also have to see two things. In the BCIPL side, there are certain accounting policy changes, number one, in terms of the inventory valuation. We have moved to a conservative method of accounting our inventory in that company post takeover.

Secondly, if you see the tonnage, the tonnages reported in this PPT are for the full quarter. It is very categorically written, it's for full quarter and not proportionate. However, the EBITDA taken is for the proportionate period. Therefore, the EBITDA per ton comes down by about INR1,200 per ton. The impact of the inventory valuation is about INR2 crores. If you adjust for that, the EBITDA in BCIPL on a stand-alone basis would have been about INR12,000 a ton.

Sani Vishe: Yes, makes sense. So I think we can expect it to around INR12,000 or above that in the coming quarter?

Akshay Pitti: See, once the consolidation benefits start, as we have only acquired it on 6th of May, over the next 2 or 3 quarters, we expect this number to go up to about INR18,000 a ton.

Sani Vishe: Okay, understood. And on the volume side, so what is the reason? I mean, give some colour on why machine products volumes declined and high value added assemblies declined?

Akshay Pitti: This is purely on the product mix basis. On a full year basis, it should still be higher than the last year.

Moderator: We have follow-up questions from Balasubramanian from Arihant Capital.

Balasubramanian: Sir, per the balance sheet numbers as on this quarter, how much cash and debt level?

Akshay Pitti: The net debt number as on end of period, 30th June, was INR525 crores. However, post fund raise, the net debt picture as of 1st of August is down to about INR300 crores post both the acquisitions.

Balasubramanian: INR300 crores is for 1st of August, right, sir?

Akshay Pitti: Sorry, 1st of August.

Balasubramanian: Okay. So how would the inventory levels, inventory days, if you could share some highlights on that working capital cycle side in this quarter?

Akshay Pitti: So on the inventory number, we are at about INR270 crores of inventory. Inventory days outstanding is about 70. DSO is about 60 and DPO is about 70. Working capital has come down to about 63 days, net working capital cycle.

Balasubramanian: Got it, sir. So sir, this INR300 crores of net debt, so like how we can look at over the next 2 years, like we are trying to reduce further or like we are focusing on further inorganic growth opportunities?

Akshay Pitti: See, as of this particular second, we are not looking at any additional inorganic opportunities in the current financial year. We have already done two and we'll be looking to consolidate these and integrate them into our business. Whatever cash flow that we generate, the free cash flow, should be going towards further reducing our debt only. Beyond that, we will look at our strategies for next financial year closer to the time, looking at how the integration of the existing acquisition goes.

Moderator: Our next question is from the line of Dharmil with Dalmus Capital Management.

Dharmil: Yes. So my first question is more on the operating metrics that you have shared in the PPT. So the lower value added has grown and the machining part and the higher value added declined. Despite that the EBITDA per ton has increased for the stand-alone business. So any reason what is the particular reason for this?

Akshay Pitti: The total operating leverage is up by 25%. So your overheads will be distributed better simply on that basis. And the product mix. So if you see the blended sale realization of the rotating electrical equipment, it's still up by 9.8% despite the decrease in raw material prices.

Dharmil: Understood. And secondly, in the standalone business, your other expenses used to be somewhere around INR20 crores to INR25 crores, which is now increased to INR35 crores to INR40 crores. So what is the particular reason or expense this other expenses have grown, or will this remain the same for the remaining year?

Akshay Pitti: Like I mentioned, there are certain onetime expenses amounting to INR2 crores with the acquisition. And also a lot of the expenses for the full year is normally booked in the first quarter, certain of them. So the other expenses are higher by about INR5 crores when compared to the previous quarter. INR33.68 crores of the other expenditure during quarter 4. Sequentially, it's up by about INR5 crores, in which expenditure on a onetime basis is about INR2 crores.

Dharmil: So for the last 3 quarters, keeping aside the onetime expense, other expense should come down.

Akshay Pitti: They should come down by a small margin.

Dharmil: Understood. And lastly, I mean the overall lamination industry in India has seen quite a growth. All the players have been seeing some growth as well. Now that, I mean you can...

Akshay Pitti: Dharmil, I'm not able to hear you clearly.

Dharmil: Yes, is it audible now?

Akshay Pitti: Yes, this is better.

Dharmil: Yes. The last question is more on the industry. And what we have seen is lamination industry in India has grown quite a bit for last few years. All the organized players has been part of that growth journey. Now we also see that the MNC companies are also taking up interest in setting up factories in India, either directly or through acquisitions. So any broad sense on how the competitive landscape is changing or how would that affect the company? Because recently, we came across a news that one of the MNC companies is entering India.

Akshay Pitti: Yes. So that was on the cards for some time, so it's not news at least to us, and there have been MNCs in India doing this, Tempel Steel for the last 15 years. So it doesn't really change the competitive landscape. It gets more organized, which is much better for the industry as a whole. We welcome the addition of these MNCs and hope that they further drive up the consolidation of the industry.

Moderator: Our next question is from the line of Sanjeev Zarbade with Dream Ladder Investments.

Sanjeev Zarbade: My first question was regarding, is there any further space available at your Aurangabad unit after completing the current capex?

Akshay Pitti: Yes, sorry. In Aurangabad, we have actually added about 2.5 lakhs square feet of buildup area. We do not have any further area to add new buildings, but within the space created, we have enough runway to expand the capacity there up till 100,000 tons per annum, which is basically another 28,000 tons increase in the location.

Sanjeev Zarbade: And sir, related to this is any update on when you can complete the current capex, the INR198 crores capex announced for machining?

Akshay Pitti: Sorry, I couldn't hear you clearly. The capex for machining, you said?

Sanjeev Zarbade: Correct, correct. Yes. What would be the completion timeline?

Akshay Pitti: See, in that, the good part about adding the capacity in machining is, as requirement is there, we are able to add it. So we intend to finish this about 12 to 18 months from now, looking at the increased demand. We are not rigid on closing it on a particular date. We are going to keep it slightly flexible so that we don't incur the overhead cost of reexpansion without the revenue coming in.

Sanjeev Zarbade: Okay. Great, sir. And the last question, if I can squeeze in, was regarding the EBITDA per ton. Can you throw some light on what kind of an average trajectory on EBITDA per ton we can expect over the medium term?

Akshay Pitti: So if you take on a stand-alone basis, we did about INR43,785 EBITDA per ton. If you adjust for the one-time expenditure related to the acquisition of Bagadia Chaitra, we are already somewhere around INR45,500 on a stand-alone basis. With the addition of Pitti Castings, the merger, this number should grow to about INR48,000 on a standalone.

Moderator: We have follow-up question from Balasubramanian with Arihant Capital.

Balasubramanian: Sir, we have seen in this quarter employee cost and other expenses in terms of sales increase around 100 to 200 basis points. Post the consolidation of all the acquisitions, we can expect the normal levels of 8% kind of employee cost and 8% to 9% kind of other expenses in coming quarters?

Akshay Pitti: We've had our increment cycle in the first quarter. And obviously, the numbers are going to grow over the next quarters on the sales line. So the employee cost as a whole will remain fixed at this at an absolute number. As a percentage of revenue, it really doesn't have much meaning as the revenue will change with respect to the raw material pricing.

Balasubramanian: Got it. Sir, this recent acquisitions, this Bagadia Chaitra as well as Dakshin Foundry, these order executions are having any price clause, like in Pitti stand-alone basis, we have a price clause?

Akshay Pitti: I'm sorry, but I'm not able to understand your question. If you can speak clearly and slowly

Balasubramanian: Sir, I'll repeat the questions. In Pitti Engineering on stand-alone basis, we have a price variation clause for 3 months. And some of the contracts, like wind and other contracts, we have some additional price variation clause. Like this recent acquisition companies, Bagadia Chaitra as well as Dakshin Foundry, any price variation clause on the execution of orders?

Akshay Pitti: Yes. So both casting industry as well as the lamination industry as a standard have a quarterly price variation clause built into all contracts. Similarly, these two companies also have the same clause with all the customers.

Balasubramanian: Is there any lag, sir? Or is...

Akshay Pitti: Raw material prices on the lamination business are for a quarter, which is January to March. The sell price which we, as a supplier, built into our customer is from February to April. So while just for a quarter it is staggered by 1 month, the idea behind that is that your inventories can be consumed at the old rate. So that way, we do not incur any losses when compared to the increases or decreases in the market.

Moderator: As there are no further questions, ladies and gentlemen, we have reached the end of the question-and-answer session. And on behalf of Pitti Engineering, that concludes this conference. Thank you for joining the call.

For further queries or visiting the plant, please be in touch with Rama Naidu from Intellect PR on 992-020-9623. Thank you for joining us, and have a wonderful day.

(This document has been edited to improve readability)