Pitti Engineering Limited
(Formerly Pitti Laminations Limited)
ISO 9001:2015 ISO 14001:2015
www.pitti.in

PITTI

30th May 2022

To,
BSE Ltd
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 25th May 2022

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With reference to our letter dated 20th May 2022 intimating you about the conference call with investors to be held on 25th May 2022, please find attached the 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
Company Secretary & Compliance Officer
FCS 5532

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"Pitti Engineering Limited Q4 FY22 Earnings Conference Call"

May 25, 2022

MANAGEMENT: **MR. AKSHAY S PITTI – VICE-CHAIRMAN & MD AND INTERIM CFO, PITTI ENGINEERING LTD.**
MR. VARUN AGARWAL – PRESIDENT, PITTI ENGINEERING LTD.
MR. SANDIP AGARWALA – PRESIDENT, PITTI ENGINEERING LTD.
MR. RISHAB GUPTA – PRESIDENT, PITTI ENGINEERING LTD.

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY22 and full-year FY22 Earnings Conference Call of Pitti Engineering Ltd. 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 today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Joining us today on this call are Mr. Akshay S. Pitti – VC & MD, the Senior Management Team of the Company Presidents, Mr. Varun Agarwal, Mr. Sandip Agarwala, and Mr. Rishab Gupta.

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. Thank you and over to you, Sir.

Akshay Pitti: Thank you. Good evening and welcome everyone to our Q4 FY22 and full-year FY22 Earnings Conference Call. We hope you have had a chance to review our results. A copy of the presentation is also available on our website. I would touch upon the operational and financial performance of the company and then open the floor for a Q&A session.

I am delighted to inform you that the Company has posted its best-ever annual results. The total income for FY22 stood at Rs. 970.26 crores, which is 80.12% higher than the previous year. Net Profit grew 80.30% to Rs. 51.89 crores. Sales in quantitative terms grew by 48.15% to 31,945 MT for FY22. The total revenue for the fourth quarter stood at Rs. 286.46 crores, which is 51.16% higher on a year-on-year basis. Sales were 8,647 MT for Q4 registering a volume growth of 27.05%. The capacity utilization during the quarter was 74.79 %, EBIDTA was Rs. 35.37 crores, up by 32.37% on a year-on-year basis. PAT stood at Rs. 20.01 crores, down by 5.66%. The Company generated a cash of Rs. 30.27 crores during the quarter. Blended sale realization for the quarter was Rs. 3,13,860 per MT, and the blended EBIDTA was Rs. 40,898 per MT.

Metro, Freight and Passenger Rail segments continue to grow significantly. We are seeing strong demand continuing from the wind energy segment. Encouraging progress is visible in Electric vehicle and Automotive segments as well. We have healthy business visibility and an order book of Rs. 1,078 crores as of 31 March 2022.

On the CAPEX front, we have spent Rs. 137 crores out of the Rs. 270 crores planned CAPEX, and the residual is on track for completion by FY23.

The Company has also recently decided to invest an additional Rs. 197 crores for FY24 and FY25. This incremental investment is towards replacement of old equipment and modernizing of the Hyderabad facilities, further automate the Aurangabad facility and enhancing of machining capabilities and capacities.

As of 31 March 2022, the debt/equity ratio was 1.15. Total debt stood at Rs. 325 crores. ROCE was 18.20% for FY22.

As we continue to improve our working capital cycle, the total working capital days stood at 96 days as of 31 March 2022.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anshul Mittal from CARE PMS. Please go ahead.

Anshul Mittal: As we can see, the debt has increased from Rs. 320 crores to Rs. 393 crore as of FY22, so what is peak debt, which we're expecting and when can we see a reduction going forward?

Akshay Pitti: Debt is at Rs. 325 crore for FY22 like I said in my opening remarks.

Anshul Mittal: Okay, and what is the peak debt, which we are expecting going forward?

Akshay Pitti: Peak debt at the peak of the implementation of CAPEX cycle will not exceed Rs. 360 crore.

Anshul Mittal: Are you planning to go net debt free as mentioned in the last Q3 con call-in next couple of years?

Akshay Pitti: Yes, that is the target.

Anshul Mittal: What is the consistent amount of other income, which we will start receiving from next year onwards?

Akshay Pitti: For FY23, the other income would be Rs. 27 crore and then after that it will peak out at Rs. 32 crores as previously mentioned.

Anshul Mittal: Okay and till when will we received this?

Akshay Pitti: This will continue all the way through FY32.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam ventures. Please go ahead.

Ankit Babel: Since now you have a capacity of around 46,000 tons, so in FY23, what kind of volumes you are targeting and also what kind of EBITDA per ton you are aiming for on those volumes?

Akshay Pitti: Right now, from 46,000 tons, we firstly expect the capacity to increase to 72,000 tons by the end of the year and therefore for the year, we are targeting a sales of 42,000 tons. EBITDA per ton can be expected to be about 42,000.

Ankit Babel: And this additional Rs. 197 crore of CAPEX, now I understand this is for renovation and automation, but any financial benefit this can have on your financials like improvement in EBITDA or improvement in asset turnover or any kind of benefit will it have?

Akshay Pitti: Absolutely. The Hyderabad facility is aged. It was set up in 2004 and 2005 and with this automation, we should be able to see EBITDA increase to Rs. 48,000 per ton, once CAPEX is done.

Ankit Babel: So, Rs. 48,000 per ton only from the Hyderabad facility?

Akshay Pitti: No, consolidated because we are also increasing the machining capacity from 600,000 to 648,000 hours, which is primarily going towards highly value-added products.

Ankit Babel: I am slightly confused. So, the renovation is happening in the Hyderabad facility, which as of now is a smaller facility. So, EBITDA per ton of Rs. 48,000 on a consolidated basis, how you will achieve?

Akshay Pitti: So, part of this CAPEX what we are planning to do is to firstly make Aurangabad a center for all our sheet metal operations and Hyderabad a center for all of our machining capabilities and capacities. So, we will reorganize the two facilities as a per that. Apart from that the capacity is increasing in machining as well. So, on a consolidated basis, you will see the EBITDA grow because we will have a rationalization of cost, two facilities doing sheet metal, two facilities doing machining. That will get sorted out. Apart from that the machining capacity is going up like I said towards highly value-added products.

Ankit Babel: Actually the question was arising from the previous statements of the conference calls that in previous calls also you have mentioned that your target is to take the EBITDA per ton to Rs. 48,000 and at that point of time, there was no discussion on this additional CAPEX, and now with this additional CAPEX also, we are sticking to that Rs. 48,000 EBITDA per ton. So, what has changed with this additional CAPEX, which was not talked about that time while giving a guidance of Rs. 48,000 per ton EBITDA?

Akshay Pitti: Beyond that, I don't think you'll get any additional benefit. Like you said this is towards replacement of equipment as well. Majority of it is going to go for the replacement of aged equipment. So, beyond that you will not get any additional benefit.

Ankit Babel: My last question is since you mentioned that you aim to become debt-free, so with this additional CAPEX now coming in, by which year you feel you'll be a debt-free Company?

Akshay Pitti: About 5 to 6 years from now.

Ankit Babel: But your peak debt would be Rs. 360 crore, including this Rs. 197 crore of additional CAPEX coming in in next 2-3 years? We have seen a massive increase in the raw material prices in the recent months, especially post the war between Russia and Ukraine. So, are you seeing any delays in receiving orders from your customers or taking delivery? Are they waiting for the commodity prices to come down or any kind of slowdown you are witnessing in the last 2 to 3 months, both in terms of inflows and execution?

Akshay Pitti: Not at all. In fact, for the current quarter Q1 of FY23, we have the strongest and healthiest order book that we've ever had in the history of the Company.

Moderator: Thank you. The next question is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: My first question is in FY22, the sales around 31,945 tons, how much tons are from Aurungabad plant?

Akshay Pitti: Aurungabad plant was approximately 20,000 tons.

Balasubramanian: My second question. The Company focused on increase in domestic revenue up to 80%. Whether the customers have shifted their manufacturing base to India or Company would like to reduce the exposure and losing some clients in exports?

Akshay Pitti: We are not losing any clients in exports. We see the domestic market growing disproportionately vis-à-vis the export market. Exports also have grown. If you see, we have exported Rs. 296 crore of sales, which is again much higher than the previous year, but the domestic customers are growing at a faster rate than our exports, which is why we see that going forward domestic will become close to about 80% of the total revenue mix.

Balasubramanian: Sir in terms of raw material cost, in terms of sale stood at around 73.6% versus 65.5% in last quarter in same year. Have you experienced lagging to pass on raw material change to the customers? Whether the quarterly price variations clause is effective?

Akshay Pitti: Yes, we have a Price Variation Clause, which is on a quarterly basis and the raw material price increase also happens on a quarterly basis. All of it is getting passed to the customer.

Balasubramanian: Nowadays, raw material prices having volatility of 10% to 15% on monthly basis. How are you tackling that?

Akshay Pitti: Our raw material is fixed for a quarter, as is our selling price.

Balasubramanian: Government levied 15% export duty for Iron and Steel products. This is expected to reduce steel prices by 10% to 15% in the coming months. What kind of benefits the Company will get?

Akshay Pitti: Again, we will not get any benefit as the increased prices are passed on to the customer and decreases in prices also will be passed on to the customer.

Balasubramanian: Another question is revenue potential of Rs. 95 crore for various machine components of off-highway applications and locomotive applications. Could you please give how it is exactly?

Akshay Pitti: These are basically machines and machine components that we have developed for locomotive and off-highway applications such as gear cases, strata frames, among others. Cumulatively, these have a revenue potential of Rs. 95 crore per year and we expect it to start contributing form H2 of current fiscal and more meaningful from Q4.

Balasubramanian: Out of 46,000 tons, what kind of capacity is for EV right now?

Akshay Pitti: There is no separate capacity for EV. It is the same product as far as we are concerned whether it goes in the electric scooter, it goes in electric bus or in the traction motor, the process is the same. So, you can, in one way, say that the entire capacity is for EV.

Balasubramanian: Out of Rs. 1,078 crore of order book, how much for locomotives and Railway?

Akshay Pitti: Locomotives and Railway should be about 30% of that order book.

Moderator: Thank you. The next question is from the line of Shivang Joshi from Centrum PMS. Please go ahead.

Shivang Joshi: I think I missed your number in your response to one the earlier participant. What is the volume that you are targeting in FY23?

Akshay Pitti: 42,000 tons.

Shivang Joshi: And versus what you did in FY22 was roughly around 38,000 or 39,000?

Akshay Pitti: FY22 was 31,945 tons.

Shivang Joshi: So, you are targeting 42,000 tons next year. Further I just want to understand higher order book that you have of Rs. 1,078 crore, if you compare it with what it was a year back, what would be the volume growth, what would be the price where the higher realization led growth in order book, if you can just give a number?

Akshay Pitti: In volume terms, we would say that the order book has grown by 50% and the rest would be on account of price change.

Shivang Joshi: So, still we see 50% volume growth?

Akshay Pitti: Vis-à-vis 1 April of 2021.

Shivang Joshi: Year-on-year, I think at that time it was Rs. 600 crore, now it is Rs. 1068 crores, so 50% is your volume growth. For the next time, I want to understand if we can give some idea about which specific sector is seeing more traction? You have already mentioned, railways traction motors are continuing to see higher ordering. So, if you want to chart a trajectory over the next 1 to 2 years, will you still believe that the railway segment could continue doing that with the ongoing with the current level of CAPEX for the next 2 years as well or 3 years as well?

Akshay Pitti: Yes, as of now, the indications that we have from all our clients whether it is from Wabtec, Indian Railways themselves, and other company such as Bombardier we see that that segment is going to continue to grow. This is not only for mainline railways, this is including transit, which is your metros. This is including regional rapid transit system (RRTS). So, we will continue to see growth in them.

Shivang Joshi: And also you have mentioned as a comment that you want to make Aurangabad as a center for your sheet metal capacity and largely Aurangabad facility is mainly your machining facility, so you mean you will be shipping your so-called WIP inventory from Aurangabad to Hyderabad and eventually sale will be out of Hyderabad, is my understanding correct?

Akshay Pitti: Not all of the parts require machining. So, only certain lamination parts require machining, which will come here. As it is, there is a lot of intra-movement of parts between our 2 facilities. They are not independent facilities, they are interdependent facilities and having these operations of one type in 2 different locations, inherently is more difficult to manage than to concentrate one skill set in one location. So, going forward when we will expand to 72,000 metric tons in sheet metal capacity, the way we see it, it would make more sense to consolidate all of those capabilities in one location so that we can use the capacity in a balanced manner without inter-dependencies.

Shivang Joshi: So large part of incremental machining capacity from current I believe if you are on 4 lakh hours to 6.5 lakh hours, a large part of that machining capacity will be coming up in Hyderabad than Aurangabad? See the reason why I am asking you this is your incentive or the other income is largely, if I'm not mistaken, linked to your sales from your Aurangabad plant. If you transfer your WIP from Aurangabad to Hyderabad, the net sales from Aurangabad, will it still be sufficient to cover up the maximum possible incentives that you can get?

Akshay Pitti: Yes. It will be far more than what we are eligible for on an annual basis. To receive that Rs. 32 crores, which is the peak level, we need to do a sale of approximately Rs. 400 crore from the Aurangabad facility, which is already happening. So, that is not going to impact that at all.

Shivang Joshi: So if that is already happening, you just mentioned that next year we are expecting 27 crore, so why would the incentive only be peaking at the current levels itself?

Akshay Pitti: What we have done for FY22 sale, we will get the sanction from the Maharashtra Government in the next 4 to 5 months. That would be 75% of the Rs. 32 crore eligibility, Rs. 32 crore I am giving as round number. So, that will be accounted. Then, 15% is sanctioned after certain more due diligence is done, which takes typically about 12 months. So, when your sales are increasing, it will take a while for that run rate to equalize. If you see in the current year, we have accounted Rs. 9.3 crore for the current year, which we have intimated to stock exchange, the sanction we have got and in addition to that, we have accounted 15% of the previous sanction that's why. So, similarly next year when we will get Rs. 32 crore, we will only be able to account 75% of that and 15% of the current sanctioned amount. Once you start doing Rs. 32 crore for 2 years, then it will form a rolling pattern.

Shivang Joshi: And this proposed Hyderabad refurbishment, is it going to start in FY23 or will it be done later on?

Akshay Pitti: No, this is just a general approval that we have taken from the Board that this CAPEX is due and we would like to replace our equipment that are more than 20 years old in Hyderabad and also to further automate our Aurangabad facility and concentrate lamination in Aurangabad and machining in Hyderabad. This we will plan to take up only in FY24 looking at the market situation and economy at that point of time. We have not committed any resources or cash to this. This is just a planned activity.

Shivang Joshi: Till the time this refurbishment is not complete, I believe it would not be your refurbishment and CAPEX cycle, it would be split between a couple of years at least. When do you expect the EBIDTA per ton, for our modeling purpose, EBIDTA per ton trajectory, does it get stalled at around Rs. 42,000 per ton to Rs. 44,000 per ton range or is it still, even without the refurbishment, it continues to have a potential of Rs. 48,000 or Rs. 50,000 per ton as you have highlighted earlier?

Akshay Pitti: The incremental EBIDTA per ton will come from further automation and enhancement of the machining capabilities. Just the replacement of old machine will not give us any additional EBIDTA. So, as we continue to further automate, it will keep increasing. So, the automation plan is also part of Rs. 197 crore and some part is also part of the original Rs. 270 crore CAPEX. So, it's an ongoing overlapping CAPEX. In a running Company, it's very difficult to pinpoint and say that this particular thing will lead to this. There are multiple factors that would go in to increase your profitability and improve your efficiency.

Shivang Joshi: So, even till the time we don't have a chalked-out CAPEX plan for this incremental CAPEX, we still can see EBIDTA per ton raising beyond Rs. 42,000 as well.

Akshay Pitti: Absolutely. We don’t need to go ahead and do the entire Rs. 197 crores and then take the benefit. Even if do a little bit of it, automate few machines, it will keep on increasing the EBIDTA.

Shivang Joshi: And the last question from my side, as you said that domestic is growing faster than exports, do you see any drop in your export orders in the last 2 to 3 months, if you can just explain from a macro trend point of view?

Akshay Pitti: No, in fact, our export orders are like I said on an all-time high basis, they are running at all-time high run rate. There is no drop in export orders. We are also growing at a good rate, but the domestic market is growing at a faster rate than that.

Moderator: Thank you. The next question is from the line of Chetan Vora from Abakkus Asset Manager LLP. Please go ahead.

Chetan Vora: The thing that I wanted to ask is that the incremental CAPEX of nearly about Rs. 200 crore what you have been planning is towards taking the machining capacity from 600,000 to 648,000 machine hours that you've mentioned that it will be towards the highly value-added products and the refurbishment of the Hyderabad facility. Can you break up the amount how much will be incurred between these 2 and this is over what period and right now you mentioned just to the previous participant, right now it is not crystallized and this is a planned CAPEX, so it will not be incurred immediately. So, by when this CAPEX activity will be undertaken and on the machining hours, if that 600,000 goes to 648,000 machine hours towards the highly valued products, so what could be the change in profitability, that was the first question?

Akshay Pitti: This CAPEX will start not before FY24 and out of the Rs. 197 crores and I am just giving you broad numbers, around Rs. 70 crores is for replacement of the existing lamination facility in Hyderabad, about Rs. 55 crores is towards the additional machining hours from 600,000 to 648,000 and the remaining is towards automation and general CAPEX that we would require to upgrade the infrastructure in Hyderabad and Aurangabad to accommodate this new CAPEX. And as we keep automating the equipment, these are not linked to each other per se, as you can see, these are not linked to each other. So, you can also do this in a modular manner. We don't need to spend the entire Rs. 70 crore and replace our Hyderabad facility in one shot and it cannot be done in that manner also. It will have to be done in a modular manner, all of these initiatives. So, as we keep investing and replacing the older equipment with modern equipment and automation and further automate the existing machines in Aurangabad, it will keep on contributing to increasing our profitability and EBIDTA margins.

Chetan Vora: I understand, but not before FY24 and this CAPEX will be incurred over what period, any time frame?

Akshay Pitti: Like I said, it will over 2 years, FY24 and FY25 as per our plan.

Chetan Vora: And the balance of the existing CAPEX activity what is undergoing of Rs. 270 crore, Rs. 130 crore has been incurred, so Rs. 135 crore will be incurred over what period, the balance CAPEX of Rs. 270 crore?

Akshay Pitti: In the current year.

Chetan Vora: In the current year itself, yes?

Akshay Pitti: Yes, that's ongoing. That was one single CAPEX which will be completed in this financial year.

Chetan Vora: So, the balance CAPEX will be done in this year itself?

Akshay Pitti: Absolutely.

Chetan Vora: And for FY23, you guided out for the volume of 42,000 tons and you mentioned the EBIDTA also, so what kind of EBIDTA you are looking at it?

Akshay Pitti: Around Rs. 42,000 per ton, the current one will only continue because this is not going to result in any additional profitability. It is just going to be volume growth for current year.

Chetan Vora: And the Aurangabad facility is right now at 20,000 tons, right?

Akshay Pitti: Out of the 32,000 tons round figure sold, 20,000 tons was sold from Aurangabad, 12,000 from Hyderabad?

Chetan Vora: And right now the total capacity is 46,000 tons, Aurangabad we do what?

Akshay Pitti: Aurangabad would be close to 30,000 tons.

Chetan Vora: And it will go to around 54,000, right?

Akshay Pitti: No, the total capacity will go to 54,000 and then to 72,000.

Chetan Vora: That will be the total capacity, including Hyderabad, right?

Akshay Pitti: Hyderabad is about 16,000 tons, so Aurangabad will become 56,000 tons.

Chetan Vora: So 30,000 will be going to 56,000 next year, right?

Akshay Pitti: Correct.

Chetan Vora: So, this year we are sitting at 30,000, by the end of FY23, we will be going to 56,000 tons?

Akshay Pitti: In Aurangabad, yes, 56,000 tons; 72,000 tons in total at company level.

Chetan Vora: I understand that Hyderabad capacity is anyways up and running, and at what capacity utilization Hyderabad is operating right now?

Akshay Pitti: Hyderabad is at about approximately 80%.

Chetan Vora: And optimally, how much can it go up to?

Akshay Pitti: In our industry, about 80% of the average capacity utilization that you can expect.

Chetan Vora: So, 80% is the optimal utilization basically, even for the Aurangabad, it will be 80%. So, the production what we can get out of Aurangabad also, it will be at 45,000 tons at the optimal utilization, right?

Akshay Pitti: Yes, the optimal level would be about 45,000 tons.

Chetan Vora: And the peak debt you mentioned by the end of the next year will be Rs. 370 crore?

Akshay Pitti: We are estimating about Rs. 360 crore debt.

Moderator: Thank you. The next question is from the line of Arvind Kothari from Niveshaay. Please go ahead.

Arvind Kothari: I wanted to ask that there is a strong feedback from a few of the clients that the India made motors are being preferred over German made motors or things like that, that in turn maybe providing us opportunity to provide to the likes of ABB and Seimens, so how are you looking at that trend going forward?

Akshay Pitti: Like I said, we don't control that trend. We are getting orders from ABB and Siemens for their India operations. They use the same motor in India and Germany as well. So, it is not like they have a preference in India for an India made motor. In fact, we are seeing the reverse that there is a preference now that the motors are exported out of India for the European requirement, which was used to earlier come from China. So, we are seeing both of those trends going and I think those trends will continue.

Arvind Kothari: Is there an assessment that we might have done that what can be the cost difference because the German made motor and India made motor, the cost difference has gone up almost to 2x to 3x in motors. So, is there some assessment we have done with respect to China, what would be the difference now or how competitive we have become?

Akshay Pitti: We don't make the motors. So, we make the components that go into the motors. So, we would not be doing any of that assessment. We do assessment of the products that we make, which are laminations and casted components and machine components and those components if you take on a basic price basis also, we are competitive with respect to China and when you take on a landed-cost basis because of the duties which are being imposed on Chinese products of late, the difference is huge. The difference is as high as 40% to 45% where Indian products are cheaper than the Chinese products.

Arvind Kothari: Also, we have gone up the value chain in terms of the parts of the motor that we are providing and the job work that now we're doing for ABB, Seimens now, even very expensive motors we are providing the stator and everything, so how is the progress on that front, is that the acceptability is going up and our value going forward would be even better?

Akshay Pitti: I think the adoption of more assembled parts of the motor, like the stator housing and the rotor with shaft, that is going to keep going up the way we see it because the only way to simplify and consolidate the supply chain is to do more at fewer vendors and thereby improve your cost and quality. So, we see that trend going forward to be strong.

Arvind Kothari: How many players like us would be there in India, who would be providing a larger value add or are we in a better position in that sense of the value-add side of the equation?

Akshay Pitti: To the best of my knowledge, there is not a single person who makes the shaft machine components, fabricated components as well as sheet metal in a single Company, let alone a single facility.

Moderator: Thank you. The next question is from the line of Nikhil Chowdhary from Kriis Portfolio. Please go ahead.

Nikhil Chowdhary: My question has been answered.

Moderator: Thank you. The next question is from the line of Anurag Runwal from Moneybee Investment Advisors. Please go ahead.

Anurag Runwal: First of all, in terms of capacity, so currently our capacity is 46,000 tons and in the previous quarter it was 41,000 tons, so there is an increase of 5,000 tons, which has happened during the quarter, what I would like to understand is did we get the benefit of this increased capacity throughout the quarter or did the machines come during the fag end?

Akshay Pitti: Machines were commissioned mostly in February and March and therefore we did not get any significant advantage of that capacity. That incremental capacity is now fully available for us in quarter 1.

Anurag Runwal: Secondly, if we talk about your Aurangabad plant, so we are going to increase our capacity, which is going to be, I am talking about the laminations facility, so the capacity is going to come in the Aurangabad plant, so that would be coming in the existing setup itself or will we be required to construct a new building for that?

Akshay Pitti: So, the increased capacity for the Company, this will go to 72,000 tons, will be accommodated in the existing facility itself.

Anurag Runwal: My understanding was that we already have exhausted the available space at Aurangabad, so that's why I was wondering how it would come up?

Akshay Pitti: For the 72,000 tons, we are good, but beyond that we cannot do anything in that facility. So, the Rs. 270 crore CAPEX plan, we can implement that in the existing setup, but beyond that, like shifting the facility from Hyderabad for sheet metal to Aurangabad and then expanding that further would not be possible there.

Anurag Runwal: So, the adjacent land that we had, which we were planning to utilize, so that would be forming a part of the Rs. 197 crore CAPEX that we are planning to do in FY24-25, is my understanding right?

Akshay Pitti: Yes.

Anurag Runwal: So, this increased capacity, would that be throughout the year, when do we plan to see the impact on the P&L from these increased capacity, I am talking about the increase from 46,000 tons to 72,000 tons?

Akshay Pitti: So, the increase from 41,000 tons to 46,000 tons, you should already start seeing from quarter 1 and progressively as the machines keep coming and getting installed, we should start seeing that capacity being utilized and put to use. Like we said, we are planning about 42,000 tons of sales for the full year. So, just to meet that target, we would require more capacity to be commissioned very shortly.

Anurag Runwal: So, every quarter we are going to receive machines, will that be the case?

Akshay Pitti: Approximately yes, every quarter you can say we will receive a machine.

Anurag Runwal: And in terms of your planning to shift the machining capacity to Hyderabad, so what I would like to understand is that if we talk about motors, when you are providing the assembled motor, not the entire motor, but to a major extent, which includes the shaft portion as well, so my understanding was that the shaft is being made in the Aurangabad facility. So, now if you are shifting the machining facility to Hyderabad, would it be happening that the materials would be transferred from the Hyderabad facility to Aurangabad facility and then be provided to customers and would that impact your cost, would it increase your logistics cost?

Akshay Pitti: No, we are not shifting machining facility from Aurangabad to Hyderabad, we are shifting the lamination from Hyderabad to Aurangabad and focusing on machining in Hyderabad. So, the existing facilities, which are required for the lamination related operations of machining, like shaft, will continue in Aurangabad. Where the lamination is required for machining, that will come to Hyderabad. So, the shaft we wound not be transferring it from Aurangabad to Hyderabad. Only the lamination, which is required in machining will get transferred from Aurangabad to Hyderabad.

Moderator: Thank you. The next question is from the line of Sanjeev Zarbade from DreamLadder Investment Advisors. Please go ahead.

Sanjeev Zarbade: I wanted to know the incentives that we received in FY22 and what we can receive in FY23, in cash terms?

Akshay Pitti: As in cash terms, you mean what is the pay out from the Government to play? We received Rs. 16 crore, which was sanctioned and accounted last fiscal year. We have received that in cash terms.

Sanjeev Zarbade: And FY23, it will be around Rs. 32 crore?

Akshay Pitti: No, you are asking for cash terms, so only for this approved by the Government for the sanction, for disbursement would be received. So, that amount stands at about Rs. 12 or 13 crore.

Sanjeev Zarbade: And what will be the value-added sales in revenue mix in FY22 and how will it change over the next 2 years?

Akshay Pitti: In FY22, in the presentation it's given, I think for the full year, it was about 60% value added and we see the same trend continuing.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Just wanted to check which quarter are you are expected to touch the 72,000 tons capacity?

Akshay Pitti: By the end of the current financial year, it will be done, 72,000 tons, FY23 end. We are targeting to implement the entire 72,000 tons capacity by the end of the current financial year. Obviously, the utilization will take time, but the capacity will be expected to be installed by end of the current financial year.

Pulkit Singhal: And the CAPEX plan for this year is how much, FY23?

Akshay Pitti: The remaining Rs. 133 crore.

Pulkit Singhal: And your EBIDTA per ton remains that you said 42,000 tons odd because this capacity may not be utilized fully this year, is that the reason?

Akshay Pitti: That would be one of the reasons.

Pulkit Singhal: And how do we think about the 72,000 tons beyond FY23?

Akshay Pitti: Beyond FY23, right now we are firstly focused on, like I said, on upgradation of the old facility and re-organizing our businesses. Beyond that, we are not expecting to add any fresh capacity as of now because that is more critical for us to upgrade the aged facility so that we can continue utilizing both businesses and with 72,000 tons of capacity, we will be good to do a production and sales of about 58,000 tons. Currently, we are targeting to move from 42,000 tons to 58,000 tons, it will take a couple of years after which, looking at the market, we will see whether to further invest and if it has the capacity beyond that.

Pulkit Singhal: And how much demand visibility do you have?

Akshay Pitti: In terms of demand visibility for the current year, the forecasted orders are for about 42,000 tons based on all our interactions and business plans from our customers. Order book is at Rs. 1,078 crores.

Pulkit Singhal: I am just trying to understand how do you plan, you obviously setup a significant capacity expansion plan, I am just wondering what is giving you the confidence that you will be able to achieve 58,000 tons?

Akshay Pitti: This is driven from our customer interactions and their business plans and forecast over the next 2 to 3 years. So, based on all of the interactions from all of our customers, we come down to these numbers.

Pulkit Singhal: So, what is your confidence level of doing that 58,000 tons? You are 70% to 80% sure, how much of that is already in the bag in terms of orders?

Akshay Pitti: In terms of orders, the orders would be rolled out on a quarterly basis for 6 months, 9 months forward. You would not have orders over multi-year basis. It is always on a forecast basis and our discussions with the customer on their business plans. Now, obviously, that can go wrong, anything can happen in the economy. So, how do you say with any certainty that that is going to happen, but we have high level of confidence that looking at the trend and despite the current business scenario, we are confident of achieving that.

Pulkit Singhal: And in terms of your peak debt, given your plans this year and the kind of EBIDTA calculation that come, it seems that your debt should far exceed what you are suggesting, Rs. 360 crore unless of course you have significant working capital improvements even from here, so can you help us understand that?

Akshay Pitti: In my opening remarks, as I said, we are continuing to improve our working capital cycles and we have already got it down to 96 days for the full year and we expect this to continue to go downwards towards 75 days and even eventually further down to 60 days.

Pulkit Singhal: And that will happen in 2 years, 75 and 60, following 2 years, is that how I should look at it?

Akshay Pitti: So that is what we are trying to do. Let's first achieve our targets for the current year for 75 days and then see.

Pulkit Singhal: And this will be largely driven by debtor days reduction? You will have to take a hit on margins to reduce the debtor days?

Akshay Pitti: This is driven from both the debtor days reduction as well as inventory days reduction. As we continue to reduce our dependency on imported materials, we will be able to reduce our inventory days as well. So, there you will not actually see any hit on margins.

Pulkit Singhal: And lastly, the targeted EBIDTA per ton of 48,000 tons is for FY25, is it?

Akshay Pitti: Given that the capacity utilization goes up to 80% and sales of 58,000 tons happening, reorganizing and automation taking place, definitely we see that happening.

Pulkit Singhal: Can you help explain what this automation is which is suddenly giving you this leg up or is there any element of product mix because as you scale up, do you get higher margin, I mean it is easier to scale up on lower margin product, but to scale up to 58,000 tons on higher margin, how does that work out?

Akshay Pitti: If you take the products of the company, the simplest product that you make is a loose sheet metal lamination. Now, obviously over there, your margins are going to be much lower and the most value-added product that you make is a fully core-dropped stator frame and a fully assembled ready-to-use rotor where the shaft is attached, the copper is put in by us. So, the value add on the final, I am just giving you the two extremes. So, as you improve the product mix, from just plain vanilla laminations to assembled and then in assembled also more value add as you keep doing, your margin per ton will keep on increasing.

Pulkit Singhal: And you are seeing the demand visibility for that, I mean, it is moving towards the higher end?

Akshay Pitti: Yes. The demand is for the more value-added kind of products. Second reason where your margins will improve is that you have invested for 72,000 tons of capacity and you have scaled up your operations as such. So, once your utilization factors go to 80% on 72,000 tons, obviously, economies of scale kick in and the third one is automation. So, we are heavily focused on automation. I would invite you to our Aurangabad facility to have a look at the kind of automation that we have already done, that will simplify and explain to you what kind of margin improvement can take place due to automation. Just to put in perspective, there are certain machines which you operate which takes high labor, with automation it takes zero labor. So, your manpower cost will go dramatically lower and volume will increase. So, it's not one thing. It's a combination of factors, which will result in the EBIDTA increase and these are modular in nature.

Pulkit Singhal: When you look at the business 5 to 10 years out, I am just wondering whether this core product itself where you have highly integrated from loose laminations to almost 70% to 80% value add of a motor and you kind of almost covered that journey, may be in another 2 to 3 years, you would have covered that, so what happens beyond that, is there something, does the current set itself have a huge addressable TAM which is not being addressed because my understanding is that you have already the largest market share in wherever you are within your customer, so how do you expand beyond FY25, what is the thought process there?

Akshay Pitti: So, firstly let's take the market size and opportunity in India. The stated market size for this product in India is about 500,000 tons. We are at mere 32,000 tons. We are not even 10% of the market. We are the largest, but we are not anywhere close to even 10% of the current demand. As India grows, this product demand and requirement will increase. As you adopt EV, as you adopt green power, the requirement for these products will increase and we see that even if we can target to maintain our existing market share or even improve it slightly, we have great opportunities of growth in the existing products.

Pulkit Singhal: A large chunk of 500,000 tons is small motors that is not the segment that we address anyways?

Akshay Pitti: It's not just small motors, right, it's also other motors for automotive applications where we are not there today. So, that's another sector that we are focusing in.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My first question is on the end user industry. So, what percentage of our revenue of FY22 came from motors and if you can divide it in terms of low-tension motors versus high tension motors?

Akshay Pitti: If you look at our investor presentation, I think it's very clearly present there on the end-application user wise. So, we don't track it on what is low voltage or what is high voltage. Even low voltage motor going in locomotive for us is still locomotive or a high tension going in locomotive, is still locomotive. We track it more from the end application rather than the type of motor.

Aman Vij: If I add my number correctly, it's around 55% to 60% you have shown from the traction motors, special motors, and industrial and commercial motors, these 3 are the main motor segments, right?

Akshay Pitti: Yes.

Aman Vij: If you look at FY22-23 demand, so FY22 all these segments grew quite well coming from a low base, so are you seeing this healthy demand next year also? When you talk about we are targeting, for example, 30% more growth this year, so do you think all these segment can grow at 30%+ or do you think the new segments will have to contribute more?

Akshay Pitti: So, all segments will not grow at 30%. Certain segments will grow more than 100%, certain segments will not grow at all. So, end combination of that would give you this. So, there is a segment which is currently not even in our pie chart. It's in others, which is electric vehicles and automotive. In the current year, for FY23, we see that it will again start contributing meaningful revenues. So, the end user application will keep changing. It cannot be that everything grows at 30%.

Aman Vij: But these are, for your overall Company level to grow at 30% +, the major contributing segments which are these motors and maybe power generation, these have to grow at 20% to 25%, right? So you are expecting the industry to grow at that rate or maybe from your order book you can tell us about the traction you are seeing in this segment?

Akshay Pitti: Like I said, renewable energy, especially windmill is currently projected to grow very strongly based on our interactions with our customers. We are seeing tremendous growth coming from there. Traction motor, railway and metro will grow. EV and the automotive will start contributing significantly and special purpose motors will also grow. So, these 2 to 3 areas will grow significantly going forward.

Aman Vij: And where are you seeing a little less demand in FY23 as compared to FY22?

Akshay Pitti: Predominantly in consumer durables, although they contribute less than 1% of our revenue, that's the only place where I am seeing de-growth or pressure on some demand side. Apart from that, all of the other sectors are also growing, but not at 30% obviously. Mining, oil, and gas are the other one, which are going to grow significantly because of the off-highway vehicles and price in oil going up.

Aman Vij: You have talked about we have 7% to 8% market share of that 5,00,000 tons market. If you can name who are other players, do they have like 3% to 5% market share or all of them are much smaller?

Akshay Pitti: There is Tempel Steel, which is a subsidiary of Worthington Group. They are, I think, the second largest in the Country. They are currently operating at about 18,000 odd tons. Then apart from that, there are multiple guys who are at 8,000 to 10,000 tons level. Magcore is there, Capston Industry is there, Bagadia is there. If you search the internet today, everything you can get over there.

Aman Vij: Sir my question was, out of the 500,000 metric tons, most of it coming from the organized sector itself or there is a little bit of unorganized sector also available, so for us to grow greater than the market, do we require to take market share from other players or some unorganized player, that was my question?

Akshay Pitti: The unorganized sector is slowly being eased out in the industry as the MNC's and the OEM's are trying to buy more from the organized sector. Today, again this is just an estimate, don't take it from me, you can do the research, but I think about half the market is still coming from the unorganized segment and as more and more people start buying from the organized, it will definitely lead to more opportunities for us.

Moderator: Thank you. The next question is from the line of Varun Sachdeva, a Retail Investor. Please go ahead.

Varun Sachdeva: With the new machines being installed, do you have any estimate of depreciation figures for FY23?

Akshay Pitti: Again, that will depend on the installation timing. If it gets installed before September or after September, I don't have a figure on hand right now.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, what kind of interest cost you are targeting in FY23?

Akshay Pitti: It was about Rs. 39 crore for the last year. For the current year, I think looking at the rising interest rate and if we factor that in, I think it should not cross more than Rs. 42 to Rs. 43 crore.

Ankit Babel: And your current order book, which basically is the visibility you have of around Rs. 1,080 crores, so this is for how many tons?

Akshay Pitti: In tonnage terms, again, I can get the data to you, I don't have it off hand with me over here?

Ankit Babel: But approximately would it be like 40,000 tons or what?

Akshay Pitti: No, it won't be 40,000 tons. Again, estimate if I just have to do pro rata, it would be closer to about 36,000 tons.

Ankit Babel: And what is the execution period to execute this order book?

Akshay Pitti: It won't be actually even 36,000 tons because out of the Rs. 1,078 crore, about Rs. 200 crore is orders, which are executable beyond FY23. About Rs. 880 crore is executable in the current fiscal. So, that would represent close to 32,000 to 33,000 ton. You can just give the query and our investor relation agency will get the data to you.

Ankit Babel: Okay, but the execution period excluding Rs. 200 crore?

Akshay Pitti: It's the current year, out of Rs. 1,078 crore, about Rs. 200 crores is for the next year. The remaining is executable in the current year.

Ankit Babel: I understand that it's executable in the current year, but in the next 6 months, 8 months, 9 months, is what I need to understand?

Akshay Pitti: I will not have that data on hand with me on call. The IR agency will get back to you.

Ankit Babel: And wanted to understand one more thing, in our last meeting, you did mention that your customers have data of each of your cost items from where you are buying the steel, what cost you are incurring on conversion, etc., so will your customer allow you to increase your EBIDTA per ton from the current level of Rs.42,000 to Rs. 48,000, won't they come and squeeze you that okay we will give you only this much, that much, since they have data of all your costs.

Akshay Pitti: In our experience, it will always be on cost plus basis. So, if I am doing more value add, I am required to be compensated in EBIDTA terms for the additional value add. It's not like I am getting the increased margin for doing the same job. So, if I am doing additional processes, I should be suitably compensated for that additional cost and process and suitable margin should be given for that.

Ankit Babel: And lastly, the 42,000 tons of sales, which you are targeting this year, which requires a run rate of around 10,000 tons on a quarterly basis, so are we on track right from the beginning of the year or you feel it would be more back ended?

Akshay Pitti: It will definitely be more back ended because the installed capacity itself is just 46,000 tons. So, there is no way I can even do anything close to the pro rata required. So, I need to do about 3,500 tons per month on a monthly basis. My current capacity at 80% utilization factor can only give me 3,000 to 3,200 tons. It can't give me more than that. So, it will definitely be loaded in the second half.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. For any further queries of a plant visit, please get in touch with Rama Naidu or Bosky from Intellect PR. On behalf of Pitti Engineering that concludes this conference. Thank you for joining us and you may now disconnect your lines.