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

PITTI

20th August 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 16th August 2022

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With reference to our letter dated 9th August 2022 intimating you about the conference call with investors to be held on 16th August 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

PITTI ENGINEERING LIMITED (Formerly Pitti Laminations Ltd) Hyderabad 500 082 Somajiguda

“Pitti Engineering Limited Q1 FY-23 Earnings Conference Call”

August 16, 2022

MANAGEMENT: MR. AKSHAY S PITTI
VICE-CHAIRMAN & MANAGING DIRECTOR AND INTERIM CFO,
PITTI ENGINEERING LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Pitti Engineering's Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in 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. Thank you and over to you, sir.

Akshay Pitti: Good evening and welcome to our Q1 FY23 earnings call. I am delighted to inform you that the company has achieved the highest ever sales, both in terms of quantity and revenue. Sales grew by 42.32% to 8,747 metric tons, bringing in a total revenue of Rs. 311 crores, registering a growth of 76.90% year over year. Renewable energy's special purpose motors, mining, and railway related businesses continue to outperform our other end user segments. Blended sale realization during the quarter stood at Rs. 355,000 per metric ton.

EBITDA was Rs. 40,539 per metric ton. Year over year EBITDA grew by 26.8% to Rs. 35.5 crores. Net profit was up by 59.1% to Rs. 11.71 crores. Order book and forecast as of June 30th, 2022 was Rs. 948 crores. Our ongoing CAPEX is on track and during the quarter we added an annualized capacity of 4,200 metric ton for sheet metal. Capacity utilization during the quarter for sheet metal was a healthy 73.62%, machining capacity utilization came in at 79.1%.

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

Moderator: Thank you very much, sir. We will now begin with the question and answer session. The first question is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: Good evening, sir. Congratulations for good set of numbers. My first question is, the current capacity stood at 50,200 tons per annum. Previous call mentioned about 72,000 tons per annum is expected to complete by FY23.

If you move around 7,000 tons per quarter by next three quarter then only we can able to achieve. Any comment on that?

Akshay Pitti: See, we cannot increase our capacity in a modular manner beyond a point. Right now the floor space in our factories are saturated and we are undergoing civil works. Once it is completed, the rest of the entire capacity will come in a single shot towards March of '23, not quarterly.

Balasubramanian: The order book stood at Rs. 948 crores in Q1 FY23. Could you please share the breakup and executable time frame?

Akshay Pitti: The short term order book is about Rs. 700 crores, which is executable within the current fiscal year. The residual is a long term.

Balasubramanian: And the raw material costs are impacted the whole industry. Every player are facing some lag on passing the raw material cost. Right now commodity prices are cooling down. We may expect margin recovery from Q3 FY23 onwards. Any comment on that?

Akshay Pitti: See if you see from quarter 4 to quarter 1, our margins are flattish and as you know the entire raw material cost is passed through on a quarterly basis to our clients. With the cooling raw material prices, there will be no change in the pass through mechanisms and therefore no improvement to margin.

Balasubramanian: We commenced supplies to automotive industry. What kind of products you supplied and what kind of future opportunities we have right now?

Akshay Pitti: So for the automotive industry we are now supplying to both the segments of automotives, internal combustion engine as well as the electric vehicle. These are now commercial supplies, which will commence from this quarter and we expect the revenue growth to pick up from a Q3FY23 onwards.

Balasubramanian: So how much CAPEX spend on current quarter and what kind of CAPEX for next three quarters?

Akshay Pitti: So current quarter we have spent Rs. 30 crores and over the next three quarters we expect to finish our balanced budget, taking it to a total of Rs. 270 crores.

Balasubramanian: So what is the maximum peak debt levels in FY23?

Akshay Pitti: As I had mentioned earlier, we are targeting Rs. 350 crores to Rs. 375 crores of peak debt, not more than that.

Moderator: Thank you. The next question is from the line of Piyush Jain, an individual investor. Please go ahead.

Piyush Jain: I just want to know because the earlier participant also asked the reason for decline in margin. Is it the input cost?

Akshay Pitti: No, if you see quarter-on-quarter, there is no decline in margin. If you see year-over-year, there is a reduction in EBITDA per ton, and that is mainly to do with the cash discounts passed on to our clients to reduce our overall working capital cycles. Over the last two years, we have reduced our working capital cycles from approximately 180 days to near 90 days.

Piyush Jain: So what is the EBITDA margin level we foresee for year '23 or '24 or maybe EBITDA per ton? Because last quarter it was Rs. 45,000 EBITDA per ton. Now the number is around Rs. 40,000?

Akshay Pitti: Last quarter you mean for FY22?

Piyush Jain: Yes, Q4 FY22

Akshay Pitti: If you compare it to Q4, it is Rs. 40,000 only. It is around Rs. 40,000 in Q4 '22.

Piyush Jain: Sorry, YoY basis?

Akshay Pitti: Yes. So YoY that is what I was trying to explain to you that the reduction has come on account of improving our working capital cycle wherein we have passed on cash discounts to customer for a better payment days. And we expect this trend to continue at Rs. 40,000 level for the current year.

Piyush Jain: So the EBITDA we think we will be able to achieve around 12% to 13% or it is 11% range which we achieved in Q1?

Akshay Pitti: I think we are more confident in saying EBITDA per ton, because as a percentage it will vary depending on commodity prices. In percentage terms it should improve going forward as the commodity prices will fall and EBITDA will remain constant at a per ton level.

Piyush Jain: Coming to this automotive side which we just started in current quarter. So what is the aspiration? What type of volume or business amount we can do in next two years in '23 and '24? And can we get to know to which customers we are selling?

Akshay Pitti: Customer wise, I can only say that there are a couple of customers in the two wheeler space based out of Maharashtra and South India. I cannot disclose more than that. And apart from that, we are supplying to electric bus requirements in South India. As an aspiration, this is a sector that we are very bullish on over the next two to three years. We see it maturing as the EV adoption in India picks up, we see good opportunities coming from this segment.

Piyush Jain: And sir, current, the Rs. 270 crores CAPEX currently we have only planned this CAPEX only correct? There is no other CAPEX which you are thinking right now?

Akshay Pitti: So this Rs. 270 crores CAPEX will end by FY23 and after that we may take up a modernization program for our Hyderabad facility as I had mentioned in the last call.

Piyush Jain: Just last question. On the overall volume wise the metric ton of around we achieved in quarter 8,700. So with the current capacity and the capacity which we will be increasing in current year, what is the maximum peak optimum level we can achieve on the capacity side?

Akshay Pitti: See peak optimum capacity in our industry is about 80% of the installed base. So this year we are targeting to do 40,000 ton. So now the capacity will come in only in March '23. So for the current year our target is 40,000 tons and the installed capacity as of now is sufficient to meet our current year requirements.

Piyush Jain: And for this new capacity coming '23, what can be the target for '24?

Akshay Pitti: For '24 we have laid out a target of 48,000 tons to 50,000 tons.

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

Shivang Joshi: My first question is on the volume front. We have seen roughly 8,600 metric tons, 8,700 metric tons of volumes since last four quarters now. So when do we expect this volumes to inch to the next level, considering the fact that we have already added capacity over the last 3, 4 quarters?

Akshay Pitti: So we expect quarter 2 to be a flattish around 9,000 tons, 9,100 tons and quarter 3 onwards we expect to grow to 11,000 tons and then to about 11,500 tons, meeting our annual target of 40,000.

Shivang Joshi: So currently we are aiming at for a 40,000 MT for FY23?

Akshay Pitti: Correct.

Shivang Joshi: And how would that go in at FY24 basis the traction that you must be seeing in the order book or the order inflows also demand momentum that you have seen. Because in FY24 we have large part of the capacity added as you mentioned?

Akshay Pitti: FY24 we are looking at 48,000 tons to 50,000 tons.

Shivang Joshi: Also, moving on to the next part, that the EBIDTA per ton. It is fairly maintained in the range, as we can see 40,000 to 41,000 since again last four quarters. Actually wanted to understand, if I just try and have a look at your machining capacity, which actually moved from 360,000 hours to 400,000 hours, where it is just taking a multiplying factor of a utilization. We have not seen a very high utilization in the machining capacity as of now compared to the sheet metal capacity which moved from 36,000 to 50,000 and the volume have also grown. So two questions primarily. When do we expect machining capacity to come online?

Whether it will be the modular again Q2, Q3, Q4 or again it will be back ended?

Akshay Pitti: No, now it will be all back ended. We have no space to put any additional machines till the civil work is done, so all the capacity will be coming in together.

Shivang Joshi: And consequently, when do we expect an inch up in EBITDA per ton?

Akshay Pitti: So the improvement in EBITDA per ton will come once the new machining capacity comes commensurate to the sheet metal capacity and start getting utilized. If you see our machining capacity is now at about roughly 80% utilization for Q1 FY23, which is the optimum utilization. Beyond that it is not recommended to utilize the capacity and it is not feasible also with the product mix is changing.

Shivang Joshi: So for both sheet metal and just from my understanding sheet metal and machining both capacity optimal utilization level would be 80%?

Akshay Pitti: Right.

Moderator: Thank you. The next question is from the line of Manan Shah from Moneybee Investment. Please go ahead.

Manan Shah: If I look at our realization per ton, so on a sequential basis we have increased by roughly around Rs. 23,000 per ton. And when I look at our COGS per ton, we have roughly increased by Rs. 33,000 per ton. So there has been a shortfall of roughly Rs. 10,000 per ton in passing on of this increase in raw material. If you can just comment on the same?

Akshay Pitti: Come again, I could not understand that. You mean cost of materials consumed?

Akshay Pitti: The difference of Rs. 8,000 to Rs. 10,000 is also because of the forex loss and gain that we booked. If you see the other expenses during the quarter, have shot up dramatically when compared to sequential or year over year basis.

As the dollar has been volatile, all of our currency positions being hedged, we have to take a mark to market loss on those contracts which I have booked in other expenses. So if you see cost of materials consumed, we have passed on everything.

Manan Shah: Yes sure. And what sort of incentives would we be getting for this year?

Akshay Pitti: Incentive for this year we are expecting to book Rs. 27 crores, which will be towards a Q3 or Q4 based on last year sales.

Manan Shah: And for the CAPEX for the modernization and increasing them for machining capacity, how do we plan to finance this?

Akshay Pitti: That we plan to finance entirely through internal accruals as that will be done through FY24 and FY25.

Moderator: Thank you. The next question is from the line of Nikhil Chaudhary from Chrys PMS. Please go ahead.

Nikhil Chaudhary: Sir, I could not understand you said improvement in EBITDA per ton would be coming in the like will be coming towards the end like what was the reason that you alluded like I could not understand?

Akshay Pitti: So the machining capacity will come towards the end of current fiscal year. As the machining capacity will come, the blended EBITDA will improve. The blended EBITDA for lamination as well as machined and value added components put together. So if the volume of lamination increases without a commensurate increase in machining capacity and its utilization, the blended EBITDA per metric ton would come down, right?

Nikhil Chaudhary: So what is that blended EBITDA? Probably I guess you alluded in the earlier con call, but something that is in the ballpark range of Rs. 45,000 if I am right?

Akshay Pitti: Yes, once the machining capacity fully comes live and gets utilized, we are expecting about Rs. 45,000 EBITDA per ton.

Nikhil Chaudhary: What has been probably the demand outlook that has been traversed in the last two or three months after whatever we have witnessed globally like, is there something that shift that drastic shift that we have witnessing, or is it something that the other countries also considering taking from us or something like that? Wanted to understand on that front?

Akshay Pitti: So, the local demand scenario has remained strong and the export demand as well as deemed export demands are also improving. If you see our end customers such as Cummins, ABB who have published the results recently, their exports and other revenue also is going up dramatically. And we are seeing the same thing trickling down to us in terms of business.

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

Pulkit Singhal: The sales volume just has not gone up in the last few quarters and even from your guidance, given the second quarter this year may not be that great. I mean 9,100 MT. So what is really happening there? I mean, you had an order book very much in place. But it is not really translating to volumes. So what has been the reason for delays? Has there been any cancellation by any of the existing customers, or any postponement, if not, cancellation?

Akshay Pitti: So there is no postponement or cancellation. If you see a capacity of 50,000 tons annualized capacity has come in only this quarter, and without that in place, it was not really possible to increase our sales in any dramatic fashion. If you see quarter 4 our capacity was 46,000 tons and our capacity utilization was still healthy, so now with the capacity coming in our sales will go up in quantitative terms.

For quarter 2 we are not forecasting a dramatic increase in volume as the commodity prices are easing out and the supply chains are being kind of eased out by our clients. Our customers are loaded a lot of inventory. They are now liquidating the inventory. So for one quarter we have been cautious. From quarter 3 onwards we are expecting a significant volume growth.

Pulkit Singhal: Okay, so there has been one quarter kind of impact because of this inventory liquidation kind of aspect maybe?

Akshay Pitti: That is what we are expecting. I mean, Yes, we are just seeing that kind of a trend right now, which we expect will last for this quarter. I may be wrong, it will start improving probably from this month or next month onwards, but I do not see it lasting more than a quarter that trend.

Pulkit Singhal: Also, in terms of this, the EBITDA per ton, I mean, I understand machining capacity helps improve the EBITDA per ton. But then you know there is also, I mean within the floor laminations also, you have a commoditized bit and you are somewhat much more value added bit, etc. And typically one would have expected that shift to also add to an EBITDA per ton.

But your growth does not seem to be happening at the value end. So if I look at the volume growth is 42%. But EBITDA per ton decline is minus 11%. So why is that the case?

Akshay Pitti: There are two reasons. Firstly, if you go to the value add bit of the lamination, the value add comes from the machining. Machining is the process through which either we integrate a shaft or a casted frame into the lamination product.

And that has to increase in terms of capacity as well as its utilization. The second which I had mentioned, to improve our working capital cycle, we have offered cash discounts to our clients, thereby reducing our sale realization and reducing our interest cost.

Pulkit Singhal: Right, so if you could help us understand the sales realization and interest cost right both?

Akshay Pitti: So if you take the sale realization in Q1 FY22, there the sales realization was Rs. 285,000. Now in that we have given a cash discount. And that has come off our top line in the current quarter. If you compare the same thing.

Pulkit Singhal: So this part because the benefit is accruing more so on the balance sheet. And we did see an improvement of debtor days from 110 to 72 days in FY22, right? I mean so is the impact that we are currently seeing still reflective of that benefit which is already captured in the balance sheet, or there is more benefits which will accrue this year in terms of the days?

Akshay Pitti: No, there is no more benefit which will accrue in terms of days. As in our export cycle or the export side of our business we cannot do that as efficiently as we can do in the domestic. The transit times remain the same, so that base effect will still be there, so the debtor days outstanding will not improve beyond 70 days to 60 days going forward.

Pulkit Singhal: So beyond 72 days. So your working capital cycle was around 92 days of which 72 was to debtors. So are we saying there is not much scope for improvement within the 92 days itself or there could be some improvement on inventory on creditors?

Akshay Pitti: In inventory in creditors, there are definitely improvements and the total working capital cycle as on June is at 78 days already.

Pulkit Singhal: And you expect this 78 to continue throughout, I mean, is this because of the seasonality or do you think the 78 will continue even till end of the year?

Akshay Pitti: We have improved our payable days and now we are further rationalizing our inventory days. So we expect the 78 days to improve to about 70 days in the short term and then going forward even more.

Pulkit Singhal: Right, and as you think about three year growth I mean obviously you have certain volume growth plan etc. The question really is on the EBITDA per ton, right? I mean, you can grow at whichever end of the spectrum or commoditized spectrum or somewhere there in between, but as you are seeing things pan out right now, what kind of EBITDA per ton do you kind of think should we settle at three years out?

Akshay Pitti: In three years, with all the capacities in place both in machining and sheet metal and optimum utilization on both, we expect the EBITDA per ton to be about Rs. 45,000 per ton and that is to be seen in the color of the debtor days and the total working capital cycle because we will be sacrificing a little bit on the EBITDA per ton to further improve our balance sheet side.

So we target our working capital cycle to be down to about 60 days three years from now. And give you an EBITDA of about Rs. 45,000 at least. That is the thinking.

Pulkit Singhal: And is there any change in the demand environment that you might want to call out on the positive or negative side?

Akshay Pitti: See on the positive side for long term orders and new projects and models which are being developed by our clients, we are seeing a healthy flow of new enquiries. In terms of order execution, like I said this quarter, the expected growth for Q2 is not there. The reason that our clients are giving us is that due to the easing out of the supply chain situation, they are kind of leveling out the inventories which had ballooned and from quarter three onwards it should be back on track.

The long term side, it has been quite bullish, especially in the machine components business, and that we think is going to grow exponentially in the coming years.

Pulkit Singhal: And the reason for that?

Akshay Pitti: I think a better adoption of more value added and assembled products at our client level.

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

Sanjeev Zarbade: My first question is, how is the replacement market for railways shaping up sir?

Akshay Pitti: The business that we do with Indian Railways till now has primarily been through Wabtec and Alstom and those are for new locomotives. The replacement market has not really started for it in any significant way. We are right now getting approved for a whole host of products for direct supply to Indian Railways and there the replacement market is quite big.

Sanjeev Zarbade: Secondly, where do you stand on a supply of gearboxes to railways?

Akshay Pitti: So we do not supply the gearbox, we supply the casing of the gearbox, which is the outer protective cover that is one product in which we have proved ourselves not only for Wabtec, Alstom has also now directly for Indian Railways and those kind of products typically have a much higher replacement market than the overall locomotives as those would get worn out and replaced very frequently.

Sanjeev Zarbade: And sir, regarding on the quarterly results there has been a reduction on a quarter-on-quarter basis in interest costs. So has there been any reduction in our borrowings in the last quarter?

Akshay Pitti: The borrowings have gone up on an absolute level as the CAPEX is still ongoing. But in terms of working capital deployment, as I had mentioned earlier, we have improved our total working capital cycle in this duration.

That is one of the reasons the interest cost has come down. Apart from that, the debt rating was upgraded of the company last year, in sometime in October, so consequent to the rating upgrade we have renegotiated the spread over the benchmark rates with our bankers and that benefit is now seen in the P&L.

Sanjeev Zarbade: Okay, and sir, as you have you been kind of for signaling regarding the clients going for inventory rundown so does it appear then that your September ending quarter in terms of revenues will be lower than the June ending quarter in terms of revenue?

Akshay Pitti: See in terms of quantity, we are still saying that the overall quantity will be higher than quarter 1 for September quarter. In terms of revenue it will be lower, not because of inventory rationalization, but because of the decrease in steel prices. Specific to our industry the electrical steel prices have corrected by about Rs. 16,500 per metric ton in the last in July 1st of July and that has been passed on to the clients.

So the selling price has come down. If you see the order book, the order book also has come down vis-à-vis 31st March because of the revaluation of the orders at the new price point.

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

Manan Shah: So since our machining capacity will take some time to come online from a year onwards. However, our sheet metal capacity will expand, then, where do you see the EBITDA per ton going in that case, since the mix will change and we would not be able to have a similar make green machining and the sheet metal components?

Akshay Pitti: See in the short term we see the EBITDA being around Rs. 40,000 per ton for the current year. By the end of the current year we expect the machining capacity to come in. So we see the EBITDA starting to improve from FY24 and by at FY25 both the capacities of sheet metal and machining would be optimally utilized. We see it going up to Rs. 45,000 per ton

Moderator: Thank you. The next question is from the line of Ravindra Naik from Sunidhi Securities. Please go ahead.

Ravindra Naik: Whether we will receive the incentives to last year?

Akshay Pitti: For last year incentive, typically it takes about six months for the money to be dispersed by the Government and the letter had come in April. So we expect the collection to happen sometime in October.

Ravindra Naik: You are capturing to at least nine industry groups currently. So if I see the presentation, so which industry will contribute to the EBITDA spike post commissioning of the CAPEX and what is your guidance for FY23 EBITDA per ton? Post commissioning the CAPEX and why this EBITDA will, which industry will contribute to maximum EBITDA going ahead in FY23-24?

Akshay Pitti: See, there is no industry per say that contributes higher EBITDA per ton. It is the level of value add and the complexity of product that we supply. We supply the highest complex products to the railway industry today. That is just because that is the way the product is configured for them at this initial state of development itself.

Apart from that, renewable energy is another place where we do significant amount of value add, as is the data center backup power systems.

Now that trend of higher value added products is picking up across special purpose motors as well as industrial motor segment. So as you do the value add, your EBITDA per ton increases.

Ravindra Naik: Now that I understand which industry is providing you an opportunity for higher value add? Even among the all the nine group of industries that you have mentioned, which industry group is actually contributing the significant value add pertaining to you?

Akshay Pitti: So railways gives us the highest value add because there we do a lot of machining and assembly of the product as is renewable energy and data center backup power systems.

Ravindra Naik: And sir, what is the average realization currently the last delivery and if I can mention that?

Akshay Pitti: I did not understand the question. Can you please repeat that?

Ravindra Naik: Last delivery realization, average realization per ton?

Akshay Pitti: So for the blended realization is about Rs. 355,000 for quarter 1 FY23.

Ravindra Naik: No, I am talking about in the current quarter what is the blended realization for the last delivery?

Akshay Pitti: See that is going to be changing month to month depending on the product mix. We cannot, kind of quantify that mid quarter.

Ravindra Naik: But any idea that because you had mentioned that the commodity prices corrected. So how should we see the EBITDA per ton in the second quarter? Any ballpark figure?

Akshay Pitti: See the EBITDA per ton will not be impacted due to correction of raw material price.

Ravindra Naik: No, I am sorry, realization per ton, sorry?

Akshay Pitti: So the industry thumb rule is the raw material consumption factor is 1.8 and the steel prices are corrected by about Rs. 16,000 per ton, so that should give you an impact of roughly Rs. 28,000 per ton in terms of blended sales realization typically.

But again, that will change depending on the product mix, the grade used, the level of value add. There are so many other factors which impact that. It is not just the raw material pricing.

Ravindra Naik: So your order book is priced to the current commodity prices?

Akshay Pitti: Correct. The order book as on 30th June is priced to the current raw material prices.

Ravindra Naik: Okay is that it is Rs. 900 crores, can you please tell?

Akshay Pitti: Rs. 948 crores.

Moderator: Thank you. The next question is from the line of Piyush Jain, an individual investor. Please go ahead.

Piyush Jain: Sir, want to know, are we doing still some Rs. 100 crores business with Pittti Casting, our group entity?

Akshay Pitti: Yes, we should be doing about Rs. 80 crores to Rs. 100 crores of top line with them even today. Majority of our casting comes from there.

Piyush Jain: Any plan to merge that entity because sometime on a related party some type of sales, sometimes it shows that the why is the business is happening in that entity. Is it because of that particular specific feature is there in that entity which is not in under Pitti?

Piyush Jain: So this was not a business which was the entity of Pitti. It was a company that we bought out in our individual capacity who was supplying to us and we had a strategic stake in the business. Over the years we felt that to control the supply chain, as most of our clients would like the qualifications and the control on the incoming product we in the group we had bought it under the group.

We have plans to kind of consolidate this industry. At least that is our intent. We could not proceed with the intent because there is an open offer which was pending since 2011 which was contested by SEBI all the way to Supreme Court.

Now that the resolution had come on that open offer, it will be done away with shortly and once that is done then we can work out a process to kind of amalgamate these two companies if permitted by the board.

Piyush Jain: Sir, another one question. Do we have any ICD still there from the promoter in the balance sheet?

Akshay Pitti: Yes, Rs. 25 crore is subordinated to the term loans of the banks. And apart from that for short term means, I do keep giving them. I think, as on 30th of June the ICD in Pitti Engineering is about Rs. 40 crore on the promoters including the subordinated portion.

Piyush Jain: And the last thing. Since you are saying, basis the discount your working capital days are coming down. So what could be our working capital peak debt which we are envisaging for ‘23?

Akshay Pitti: Working capital alone should be about Rs. 190 crore. It should come down to about Rs. 190 crores.

Piyush Jain: Could come down to Rs. 190 crore for 2023?

Akshay Pitti: Yes, at the end of ‘23.

Piyush Jain: And the incentive with respect to this plant will come in March '23?

Akshay Pitti: See the process just to give you an idea. The process to apply for the incentive requires that the annual report also be submitted and the GST audit. So once we receive that only then we can apply for FY22 application with the government. Typically it takes about six months for them to release it.

Piyush Jain: Historically, it has come always in the March month, so in the current year also it will come in March or it can come before that also?

Akshay Pitti: See the minute we file it about six months is what it takes. Once your annual report is out, say in September, we file it. We typically get it in March or April, 6 to 7 months max.

Piyush Jain: And what is the quantum for next two years?

Akshay Pitti: It will be flattish at Rs. 32 crores for next year. Currently would be Rs. 27 crores. Next year should be about Rs. 32 crores. The sanction process also is typical. About 75% is sanctioned based on self declaration. Another 15% is sanctioned upon scrutiny and then another 10% on GST return audit. So there is a kind of a rolling sanction on that.

Piyush Jain: Sir, last thing. Currently we are having an order book around Rs. 900 crores, Rs. 950 crores. So what is your view with respect to the order book which you can achieve for 2023 to be executed in 2024 or and the turnover size like 2022 we have received Rs. 950 crores. So what is the peak size you can envisage now or even a two year or three-year horizon?

Akshay Pitti: I would not want to comment on that using the Q1 raw material prices because otherwise it would not be a fair comparison. We have done Rs. 311 crores of revenue for Q1. If the same prices continue, then for the full year we should be heading towards about Rs. 1,350 crores of revenue. Obviously that is not going to be achievable because these commodity prices have already started declining.

So that is why we like to always put the quantitative data out there on the tonnage side, because that is a kind of a steady barometer which does not get affected by the commodity fluctuations.

Piyush Jain: But still maintaining whatever level of 2021 and before that the high commodity price. So what can be the target? I think somewhere one or two can call back, we have told some Rs. 1,800 crores of revenue in 2024 if I remember correctly?

Akshay Pitti: See on the same raw material prices if they are there, then yes, Rs. 1,800 crores would be that a kind of a target revenue.

Piyush Jain: For '24, correct?

Akshay Pitti: Yes, if you take my guidance on 48,000 to 50,000 tons of total tonnage sold and take the 355,000 sale realization, you get to about that number.

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

Balasubramanian: Revenue potential of Rs. 95 crore per annum from various machine components for Off-Highway Applications and locomotive applications and the other machine parts for locomotives, which is expected to start from H2 FY23. Any comment on that?

Akshay Pitti: That is on track. The products under approval stage we have supplied the protos and got the initial approval in quarter 4. The pilot boards have been supplied and we expect to start commercial supplies from Q3 onwards and the volumes will pick up from Q4 onwards.

Balasubramanian: Sir, you are using steel as your main raw material like what kind of grades you are using. If you could give the break up?

Akshay Pitti: See, there is no breakup per se. It is based on the customer specification. We do not decide the steel that we use. Basic commodity spread would be electrical steel within steel there would be electrical steel. There would be different kinds of alloy steels for our shafts and other kind of part materials and of course castings of various grades including iron and steel.

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

Niraj Mansingka: Yes, I just wanted to know on the railways, can you give us more color on how you can scale up in next one year and next 3-4 years and how the scale up of the railway CAPEX and all that can be participating?

Akshay Pitti: I am sorry but you are not audible. Can you please repeat your question clearly?

Niraj Mansingka: Yes, I just wanted to know on the railway side can you please help us understand slightly longer perspective what are your thought processes and how this scale up when the CAPEX of Indian Railways comes up, what role would you play during that time and slightly more longer term understanding would be useful?

Akshay Pitti: So, if you say, railways is a very wide spectrum, so we like to break it down into multiple parts. So one is on the freight rail. If you take the freight rail, there is a diesel locomotive and the electric freight locomotives. On both of those platforms which are being supplied by Alstom and Wabtec, we are the qualified supplier for many products and we see that business being steady as it is a 10 year fixed contract on volume per year.

Additional to that there are various announcements by the government on different kinds of electric trade loco which they plan to make within their own facilities, as well as some of them which should be outsourced in terms of design and development.

We are participating with most of the people who are bidding on those projects on the freight loco side. On the passenger loco side, the Indian Railways is currently making most of the locomotives in house and over the last two years we have gotten various levels of approvals for lot of components.

Commercial supplies, depending on the railways own validation matrix takes a long time. We have to supply the first set of protos and wait for a year for the feedback to come from the field and then again supply the pilot lots, have a similar waiting time and then the commercial supply starts. So we see the commercial supplies for direct to Indian Railways is starting from FY24 onwards for these gear cases, as well as the axle boxes and suspension cues and those kinds of machine components.

And that is a big business opportunity. Apart from that we are working with the various sub-vendors of railways for the Train 18. As of today only Medha Servo Drives is the approved supplier for those traction motor related components.

Alstom, Fiji Power and various other people are getting approvals and we are working with them as well. Then you have RRTS side of the business on the Indian Railways, which is in a nascent stage of development. So it is a very wide field and we are working with various companies on all of those fields.

There is Metro Rail as well, which will not be covered under railways directly, but kind of a rail based commuting systems. Overall, we see that railway and the related businesses should contribute even higher percentage of revenues going forward.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, on behalf of Pitti Engineering, thank you all for joining the call. For any further information and plant visits, please be in touch with Mr. Rama Naidu from Intellect IR. That concludes this conference call for today. Thank you all for joining us and you may now disconnect your lines. Thank you.