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

PITTI

18th February 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 15th February 2022

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With reference to our letter dated 7th February 2022 intimating you about the conference call with investors to be held on 15th February 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

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

Mary Monica Braganza
Company Secretary & Compliance Officer
FCS 5532

"Pitti Engineering Limited Q3FY22 Earnings Conference Call"

February 15, 2022

MANAGEMENT: **MR. AKSHAY PITTI – VICE CHAIRMAN AND MANAGING DIRECTOR, PITTI ENGINEERING LIMITED.**
MR. VARUN AGARWAL – PRESIDENT, PITTI ENGINEERING LIMITED
MR. SANDIP AGARWALA - PRESIDENT, PITTING ENGINEERING LIMITED.
MR. RISHAB GUPTA- PRESIDENT, PITTI ENGINEERING LIMITED.
MR. NAND KISHORE KHANDELWAL – CFO, PITTI ENGINEERING LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Pitti Engineering Q3FY22 Earnings Conference Call.

As a reminder all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after today's presentation. Please note that this conference call will be recorded.

Joining us on this call today are Mr. Akshay S. Pitti – VC & MD, the senior management team of the company presidents Mr. Varun Agarwal Mr. Sandip Agarwala, Mr. Rishab Gupta and Mr. Nand Kishore Khandelwal - CFO.

Before we begin I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations please refer to the earnings presentation.

I would now like to hand over the call over to Mr. Akshay Pitti. Thank you and over to you, Sir!

Akshay Pitti: Good evening and welcome everyone to our Q3FY22 Earnings Call. We hope you have had a chance to review the presentation of our results, copy of which 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.

The Indian economy remains on track to regain its position as the world's fastest growing major economy at 9.2% this fiscal. The growth focused Union Budget 2022 lays down a roadmap with historic allocation of Rs. 7.5 lakh crores CAPEX for developmental project. PM Gatishakti Master Plan, the extension of date for setting up new units for availing lower income tax benefits, focus on productivity enhancement, measures to grow EV ecosystem, promotion of data centers, additional orders of Vande Bharat express trains among others has laid out a path for long term sustainable growth for the country.

The inclusion of data centers and energy storage systems and harmonize best of infrastructure facilities. Facilitate credit availability will increase the pace at which data centers are setup across the country.

A 35.4% increase in capital expenditure on national highway expansion of 25,000 km is going to trigger a capital expenditure wave in cement, steel and mining sectors which form an integral part of our end-user markets.

We at Pitti Engineering are excited about various opportunities for the company to capitalize on with these announcements.

I am further delighted to report the Company has recorded good quarterly numbers across all key performance indicators like sales, EBITDA, and PAT.

Financial Highlights

Let me take you through the financial and operational highlights for the quarter ended December 2021.

The income from operations for the quarter stood at Rs. 265.46 crores which is 75% higher on a YoY basis. In quantitative terms sales were at 8542 metric tonnes against 6672 metric tonnes during the corresponding quarter last year, registering a volume growth of 27.99%. Capacity utilization during the quarter was 83.90%. EBITDA stood at 34.28 crores up by 35.92% on a YoY basis. PAT was 11.52 crores up by 58.68%.

The company has generated a cash of Rs. 21.26 crores during the quarter. Income from operations for nine months stood at Rs. .683.8 crores which is 95.8% higher on a YoY basis. EBITDA was at Rs. 97.27 crores and PAT was at Rs. 31.88 crores.

Considering the important numbers, we are on path to achieving Rs. 900 crores as our top-line for the full year. Blended sales realization for the quarter was Rs. 3,10,000 per metric tonne. Blended EBITDA per metric tonne was Rs. 40,128.

Operational Highlights

- The Company has received LOI for supply of stator and rotors from two reputed customers manufacturing for e-bicycles and 2 wheelers in the EV space. Company has also received significant approvals for certain products from Indian Railways having potential of high-volume runners in the future.
- We also received an LOI and sample order to supply components for power tool motors from a very well-established power tool manufacturer. The company bagged an order from TMEIC to supply stator assemblies and complete rotor, diecast with shaft worth Rs. 15 crores and an order of Rs. 15 crores for supply of 3.4 MW wind generator stator and rotor assembly from Siemens Gamesa during the quarter.
- The company is experiencing good flow of new inquiries and is correspondingly doing good product development which are converting into LOIs and pilot orders. We are excited that

these inquiries are coming from exciting new end-user application including EV power tools and e-mobility.

- The global supply chain disruption due to Omicron has delayed the supply of various machines from Europe, Japan and China which were expected in the December quarter. We expect the same to arrive in Q4 and be available for production in Q1FY23.

The company is on track for its expansion plans in Aurangabad and has acquired adjoining land to its existing facility. The CAPEX will be completed by end of FY24 with incremental capacity enhancement starting from Q1FY23. Capacity by end of this year would stand at 48,000 metric tonnes vis-à-vis the current 41,000 metric tonnes.

I continue to see buoyant demand from all our key end segments, order book and forecast as of 31st December 2021, stand at Rs. 978 crores. I would now open the floor for a Q&A session. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

Sudhir Bheda: Good Afternoon Sir and Congratulations on a good set of numbers. My question was your volume is almost constant as compared to Q2 of this financial year. And the value-added quantity is slightly down. So, can you throw more colour on this?

Akshay Pitti: See the volume is constant because as I have mentioned in my opening remarks that the expected capacity enhancement, which was supposed to happen in this quarter, could not take place due to delay of arrival of the equipment. Therefore, the volume is constant as we could not have the new capacity available. As far as the product mix is concerned, a little bit up and down in valued and those will continue it's a dynamic situation and I think it is well within the acceptable limits.

Sudhir Bheda: So, can we expect increase in the volume in Q4 or enhanced capacity will start only from 1st April?

Akshay Pitti: See the machines are still coming; we have not received all our equipment even as of today. So, the capacity will be fully available for Quarter 1 of the next year. For Quarter 4 we don't expect more than 8600 tonnes based on the current capacity availability. We have the orders but because of not having the capacity in time we are not able to get higher sales in this Quarter 4.

Sudhir Bheda: Can you elaborate more on the LOI which you have received from the two-wheeler EV manufacture. So, what is the potential over there in the next financial year and thereafter?

Akshay Pitti: See out of the two LOI one LOI comes with a sticker of Rs. 15 crore potential revenue per year. It's a first LOI for a limited batch of production. The second LOI is more of a product development at the customer's end. The volume indication for that is not available as of now, we will get to know that, once they try it in the market and come back to us with their estimates.

My take on the sector would be that it's an emerging sector. So, any potential number is always thought with little bit of risk. But also, at the same time, I would say that this is a fast growing sector. So, any numbers that we are seeing today can increase exponentially in a year's time as well. It all depends on how quickly the country adopts and accepts electric vehicles and E-mobility.

Sudhir Bheda: And my last question is your EBITDA has come down QonQ slightly and that has affected EBITDA margin. So, going forward, what is the outlook on this?

Akshay Pitti: Like I mentioned in the past also we see Rs. 40,000 per ton EBITDA as a stable EBITDA it will go up as our volumes will go up in the next year. It is marginally down on EBITDA per ton, if you could see its down by about Rs. 300 per ton and also the volume is down by 70 tonnes due to that it is down about Rs. 90 lakhs, when compared to the last quarter, which is not very concerning to us at this point.

Sudhir Bheda: Can you give some guidance on EBITDA margin for FY23?

Akshay Pitti: For FY23 we see the EBITDA margins at around 40,000 to 42,000 per metric ton.

Sudhir Bheda: Thank you for the opportunity and all the best.

Moderator: Thank you. We have the next question from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: Good Afternoon Sir, thank you for giving me this opportunity, What is the capacity utilization? You mentioned in the opening remarks I missed on that?

Akshay Pitti: It was at 83%.

Sanjay Awatramani: What is the debt we are holding right now in the books?

Akshay Pitti: So, our debt profile as of December would be about Rs. 330 crore.

Sanjay Awatramani: And the order book is that Rs. 987 crore.

Akshay Pitti: Yes

Sanjay Awatramani: What is the cash as of December, we have it in our books.

Akshay Pitti: The cash as on 31st December is about Rs. 30 crore.

Sanjay Awatramani: The EBITDA margin, you said that is 40,000 to 42,000 per metric tonne. Can you quantify that in percentage terms?

Akshay Pitti: Mr. Sanjay, the problem in our industry is that we have 100% pass through on the raw material prices. When the price of raw material goes up our EBITDA margin as a percentage of sales comes down. If you see in Quarter 3 our EBITDA margin as a percentage has come down, while absolute EBITDA and volumes have remained flat. So, if the RM prices decrease our margins increase as a percentage. So, that's why we try to do this blended EBITDA per ton, because that's a more accurate reflection of the operational performance of the company.

Sanjay Awatramani: Next part is that we have this Rs. 15 crore order from this EV and one more order of Rs. 15 crore for wind and hydropower projects is that understanding right?

Akshay Pitti: We have a Rs. 15 crore LOI from the E-mobility space. Apart from that, we have an order from the wind turbine space from Siemens Gamesa and another order from TMEIC. These are two major orders bagged during this quarter, apart from the existing orders and other things that we have in the normal course of our business.

Sanjay Awatramani: Thank you Sir

Moderator: Thank you. We have the next question from the line of Anurag Roonwal from Moneybee Investment Advisors. Please go ahead.

Anurag Roonwal: Congragulations on a great set of numbers. My query is actually related to the margins that we are earning on our sales. So, if you see in percentage terms, we see that the material cost has been increasing since the past two, three quarters. I mean, last year, it used to be around 65% to 66%. But now, last two quarters, I see that it has gone up to nearly 70% to 73%. Where do you think this is going to stabilize going forward?

Akshay Pitti: See Anurag, I don't think I am even competent to predict that because this is the commodity industry. If the steel prices continue to rise, while our margins on absolute terms will remain consistent, whereas percentage of our raw material costs to sales will go up. As the steel prices start easing then you will see the reverse trend happening. So, it's very difficult to predict where these prices are going to go.

Anurag Roonwal: In absolute terms, I was seeing that these margins if accurately spreads meaning the gross margin per metric ton, I was seeing that it is around 84,000 metric ton. Is that right? Is it close to what you guys see in your numbers?

Akshay Pitti: We track it on a blended EBITDA margin. So, on the blended EBITDA margin you are seeing about 40,000, if you see on gross profit level, it should be about 80,000 to 84,000 what you are saying. I don't have that number in front of me, but I am pretty sure, it should be around that level.

Anurag Roonwal: And EBITDA you mentioned that you expect it to go to 42,000 to 43,000 in the next year. And what about when we are running on full capacity, of course, the CAPEX that we have envisaged?

Akshay Pitti: I think again, it will be stable around 42,000 only, you cannot go beyond 42,000. At this point predicting would be a little difficult. So, we are being conservative and suggesting about 42,000. It has a potential to go up if the capacity utilization is about 80%, it has the potential to go up even higher than that.

Anurag Roonwal: And the next question is related to the expansion plans. So, I understand that the next sets of machines are expected to come in the coming quarter. But I also understand that you would be undertaking the Greenfield expansion, how will that pan out?

Akshay Pitti: So, the existing equipments, which were supposed to come in Quarter 3 are going to start arriving in Quarter 4. And that will go and sit in our existing shed and building. As far as the Greenfield expansion that's taking place all around our existing facility. So, we have acquired land on all three sides of our existing facility, and we are creating new infrastructure there with additional machines, which will be bought in FY23 and will get installed.

Anurag Roonwal: So, when do you think that expansion will sort of get over?

Akshay Pitti: That expansion will be fully completed by FY24.

Anurag Roonwal: But every quarter, do you think there is going to, like you mentioned in the previous calls, every quarter will we be able to see expansion in the capacity or is this that after all these which come in the 4th Quarter, there will be a gap and only after the Greenfield sort of completes, then we will see the expansion, how will this pan out?

Akshay Pitti: See the way we are currently estimating is that once the current lot of equipments come and get capitalized for Quarter 4 that will give significant increase in capacity from the current 41,000 to 48,000. After that it takes about six to seven months for the buildings to be created. And then subsequent to that every quarter-on-quarter, you should be able to see an increase in capacity.

Anurag Roonwal: OK got it thank you.

Moderator: Thank you. We have the next question from the line of Dhruv Shah from Ambika FinCap. Please go ahead.

Dhruv Shah: Congratulations for the good set of numbers. I have basically two questions; does our utilization go up to only 80% or can we go above that as well?

Akshay Pitti: Our typical utilization or the most efficient utilization of capacity as we say is about 80%, because of the tool changes and downtime that it requires to service our machine. Push comes the same can be pushed above 80%, if you have seen in Quarter 2, we were actually operating close to 88% but that's not the right utilization for the machine from the long term perspective, from the long term health of the equipment.

Dhruv Shah: When you suggest that we are going to go up, best case we can do a 60,000, right?

Akshay Pitti: Yes, so out of the 72,000 installed capacity that we are targeting by the end of FY24 80% is what we estimate to utilize which is about 60,000 tonnes.

Dhruv Shah: My next question is when you say that we are getting into data centers and EV, does the realization per ton increase with the new applications or does the realization remains the same just that the quantum of our supply increase?

Akshay Pitti: See the realization per tonne depends on the level of value add we are doing. So, for an electric vehicle we can supply a simple loose lamination also, we can also supply a fully assembled component so value add determines the realization per ton.

Dhruv Shah: But all these new applications would be value add right or is it -- plain vanilla as well?

Akshay Pitti: No, it really depends. So, for the data centre application it's highly value added, based on the current enquiries that we have from the E-mobility space and EV space both the value, LOIs are all over the place. So, we have some which are for loose laminations and some which are for highly value added components as well. So, the industry segment will not determine the realization per tonne per se. It will have a bearing because the grade of raw material that you typically use for electric vehicle is a very superior grade. So, the basic cost of material is higher therefore the selling price is higher. But that does not mean that the margins on EV will be higher.

Dhruv Shah: Are we giving a separate EBITDA per tonne for our value add and sheet?

Akshay Pitti: No, the value add is on the same product that we do for those sheets that are there, we just add more value in terms of machining or integrating more components and assembling them. So, for us, it's all one consolidated segment.

Dhruv Shah: Congratulations again on a good set of numbers.

Moderator: Thank you. We have the next question from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: You just said that capacity could reach 48,000 tonnes by end of current year. So, by end of next year, what can be the capacity?

Akshay Pitti: By the end of FY23, we estimate it will rise from 48,000 to close to 60,000.

Jehan Bhadha: And on an average, what would be the execution period for any order, so if you can give a range?

Akshay Pitti: So, it depends if it's a product, which is already developed with us, the execution period can be as little as two weeks. But if it's a new product that we need to develop, right from tooling stage or engineering design stage, it can take close to a year to year and a half.

Jehan Bhadha: So, then in that case, does it make sense to monitor your order book also, right?

Akshay Pitti: Yes, absolutely.

Jehan Bhadha: Yes, because I was initially thinking it would be around three to six months, these kinds of orders, but fine I got it. And in Maharashtra regarding the incentive scheme, in the previous call, you had said that you are expecting Rs. 400 crore over a period of 13 years. So, if I just plain divide these numbers Rs. 400 crore by 13 we get a figure of Rs. 30 crore per year. But I think at the time of booking, you were giving a figure of around Rs. 16 crore for a year. So, where is the disconnect if you can help me with this?

Akshay Pitti: There is no disconnect. See we have implemented the CAPEX in Aurangabad in multiple phases, as you are going to do the new CAPEX as well. So, the Phase I that we had implemented was Rs. 113 crore which had got the approval for mega project. That amount we are supposed to get over seven years, equally divided. So, it was about Rs. 14 crore a year so for two years, we had got sanction for Rs. 16.25 crore while the approval had come for Rs. 21.66 crore for the period April 1, 2018 to March 31,2020, because of that we had booked Rs. 16 crore for FY21, We are expecting Rs. 15 crore more during the current financial year for the period between 1st April,2020 to 31st March, 2021, besides this we will be booking in FY23 that will be Rs. 32 crore because the Phase II of Aurangabad was already commissioned which makes total investment in expansion to Rs. 180 crore. So, with that our pro rata run rate will go to Rs. 32 crore. This Rs. 32 crore will run for the next four years after which, the incentive for our Aurangabad recent new expansion will kick in, which will be again be about Rs. 30 to Rs. 32 crore per year, for another seven years after that.

Jehan Bhadha: If I see your Annual Report, I can see there is some dealings with group companies Pitti Castings and Electricals so what is this relationship? And is there a thought to merge them with the listed company or any thoughts from your side?

Akshay Pitti: See, the relationship with Pitti Casting is that we buy these castings that are used in our machining business as well as the value add business from them. They are the approved supplier from our end clientele for many of the parts that we machine and sell. As far as merging these two companies are concerned, subject to Board approval I am pretty much open to merging it subject to regulatory permission and Board clearance.

Jehan Bhadha: OK thank you.

Moderator: Thank you. We have the next question from the line of Dhiral from Phillip Capital. Please go ahead.

Dhiral: Good Afternoon Sir, thank you for the opportunity, If I look at on the quarter-on-quarter basis, we have not seen much growth in our order book, it has remained almost flat.

Akshay Pitti: We have completed close to Rs. 260 crores of sales in this quarter. So, it's not like we have not received any orders. So, we have executed Rs. 265 crore of order book and replaced it as well. See right now our capacities are at almost full utilization. So, we are not able to deliver to our customers. So, first we need to increase our capacity, start making the highest sales and then we will be getting more order flows for our order book.

Dhiral: What could be the order inflow for FY23, any guidance you want to give?

Akshay Pitti: See FY23 we cannot give any guidance on order flow. All I can say that out of the Rs. 987 crores of order book that we have today, close to Rs. 700 crores is executable over the next nine months. And the remaining is more long term in nature spread over the next two to three years. As time goes by, we will be getting more orders from the customers and keep filling up the order book.

Dhiral: Lastly, if I see the revenue mix, our assemble and value-added mix for Q3 was 68% as compared to 73% last year, then too our EBITA went up on a YoY basis. So, is it largely due to the price inflation?

Akshay Pitti: No, it's because of the volume growth, if you would see YoY basis, our volume has grown close to 30%.

Dhiral: Yes, but our mix have changed right, the loose lamination has gone up.

Akshay Pitti: See after a point, the economies of scale will kick in. So, there will be no additional overhead costs in terms of salaries and other expenses and your overall realizations go up because of the higher tonnage.

Dhiral: OK got your point thank you so much.

Moderator: Thank you. We have the next question from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: Thank you for the opportunity my question was what is the total CAPEX we are planning for this current year FY22. And what are the CAPEX plans for next year if you can highlight that?

Akshay Pitti: So, just give me one second to give you the exact break up. I don't have the exact number in front of me, but based on the estimate, we will be having about Rs. 100 crore of CAPEX being capitalized in this year that is FY22 another Rs. 100 crore in FY23 and about Rs. 70 crore in FY24.

Sanjay Awatramani: Okay, so, this is all planned. I mean, this is already in place that we will be doing this.

Akshay Pitti: Yes. We had already announced a year and a half ago if you would recall a Rs. 270 crore CAPEX over two years. So, we are running a little behind on schedule on that.

Sanjay Awatramani: And how are we funding this?

Akshay Pitti: It's a combination of internal accruals and additional debt.

Sanjay Awatramani: And if you can share the cost of this debt and the percentage from internal accruals and debt part?

Akshay Pitti: The cost of debt is around 8% for INR debt and closer to 2.5% for foreign currency debt. Lot of our equipment is imported so we get equipment finance in foreign currency as well. And in terms of mix, the mix would be 35% equity and 65% debt.

Sanjay Awatramani: OK Sir thank you so much.

Moderator: Thank you. We have the next question from the line of Mulesh Savla from Shah & Savla LLP. Please go ahead.

Mulesh Savla: Thanks for taking my question heartiest congratulations for a great set of numbers, I just want to make one clarification, that incentive we are going to receive will it come in Quarter 4 or still you are not sure about that?

Akshay Pitti: The application is through, it is pending for final approval from the Government, I believe by end of this month or next month we are expecting to get the approval.

Mulesh Savla: So, once you will get the approval you will provide for as receivable?

Akshay Pitti: Yes, it will be booked as income.

Mulesh Savla: It will be booked as income on approval?

Akshay Pitti: On approval on sanction.

Mulesh Savla: So, irrespective of receipt or not, but if it is approved, you will provide it in the current year itself?

Akshay Pitti: Correct. We are not doing it on accrual basis we are doing it on sanction basis.

Mulesh Savla: Thank you and wish you all the best

Moderator: Thank you. We have the next question from the line of Avinash, an investor. Please go ahead.

Avinash: Sir, Can you give the breakup of the gross block of used for loose laminations versus value-added?

Akshay Pitti: It is all combined for us. See the same equipment will produce the laminations this can go in loose and the same equipment will use for lamination that goes in assembled and value-add. For us there is no distinction in terms of either of those two.

Avinash: Specifically, my understanding was, we are going to put a Rs. 100 crore CAPEX in the machining plant. And the machining is specifically used for the value-added purposes. So, just from that perspective, I was trying to understand.

Akshay Pitti: So, machining is one of the equipment which is also going into value-add, so apart from machining we also do processes such as laser cut assembly, aluminum die casting. So, these are all equipment that add value to the same lamination. So, we don't split the gross block into value-add and loose.

Avinash: Next question was, if I look at the domestic versus the export sales, whereas if I look at my imported silicon steel versus the indigenous silicon steel so my understanding was that the imported steel would be used in manufacturing of exports. But the mix is moving towards more of the domestic silicon steel. So, can you give an understanding of how is that?

Akshay Pitti: See, it also depends on availability, firstly see, it's not like we import for our export. We have multiple suppliers approved both for domestic customers as well as export customers. In our exports we are entitled for duty-free imports. So, wherever possible and approved by the customer, we like to use the duty-free materials for our exports. So, to that extent we try to import the raw material based on competitiveness. Sometimes the prices are cheaper in China, Taiwan, Japan, Europe sometimes they are more expensive so depending on that we take a decision to import or not to import.

Avinash: Can you give, what is net scrap sale that we have done in this quarter and the scrap volumes?

Akshay Pitti: That's Rs. 28.96 crore of scrap sales in the quarter and the quantity is 6670 tonne.

Avinash: I wanted to understand whatever the benefit that we accrued due to the high realizations that we get. Are these passed on to the customers, to whom we sell our value-added and loose laminations?

Akshay Pitti: Absolutely, both the increases as well as decreases, both are passed on.

Avinash: So, that we have no benefit on account of scrap sales increase in the realizations by any chance?

Akshay Pitti: No, see our margins will not improve because commodities have moved, either up or down. They do not improved or deteriorate because of that. Both raw material as well as scrap, so the net raw material cost increase or decrease in the raw material cost is completely passed on to the customer, increase or decrease.

Avinash: And on the product development expenses, when I was looking at the Annual Report, close to 4.5% of gross block is product development expenses. So, can you give a clarification, what are these expenses regarding?

Akshay Pitti: So, these are tool, software, expertise done, certifications that we received for various products and processes.

Avinash: If I remember correctly in the last call you had mentioned on tools that generally the tooling cost is recovered from the customer. So, this should form the part of our cost of materials instead of capitalized, is that the correct understanding?

Akshay Pitti: There are certain customers who generally pay for tools and most of our customers pay for the first set of tools. After that it becomes a recurring expense. Tool is a consumable item, but not short-term consumable. So, a tools life is defined in number of strokes, the number of laminations that comes out from each tool. And depending on the material used for the tool, it ranges between half a million strokes to close to 100 million strokes. So, once the tool life is consumed totally the replacement tool again is a point of negotiation as in the customer, either it is built by us and amortized over supplies or depreciated over supplies or it is funded by the customer. So, it's a commercial understanding between us and the client. So, it differs from one to the other.

And apart from this, this is a lamination tool bit, then when you go into machining and value-add, machining tools are slightly different.

They are capital in nature because those are the tool holders, tool shank which should last for longer time. So, this is like capital equipment which you need to put into the books gross tooling that you put on the machine.

Avinash: What is the debt in the books of Pitti Castings as on 31st December?

Akshay Pitti: Pitti Castings is completely debt free.

Avinash: The question was on the calculation of the order book, so it's somewhere around Rs. 980 crores odd. So, I just wanted to understand is it calculated based on the current realizations of steel prices that we see?

Akshay Pitti: Yes, it is done on that basis. See today, whenever you say order book and forecast, it is based on the POS and high. Now these POS, the price will change every quarter. Even if I have a PO for dispatch, the price will be applied for the prevailing quarter, in which the sales are made. So, tomorrow in the April the sales raw material prices go up, the prices will be revised by the customer, if it goes down the prices will be downward revised. This is based on today's raw material price, for the open POS in hand.

Avinash: Can you get the order book in terms of volumes sir?

Akshay Pitti: See I don't have the number on-hand with me right now, in that sense, but if I go by my understanding of the things, it should be close to about 20,000 tonne.

Avinash: So, 20,000 tonnes equates to Rs. 987 crore.

Akshay Pitti: Sorry that would be closer to 30,000 tonnes not 20,000 tonne.

Avinash: So, the 30,000 tonnes will be Rs. 987 crores, right, from a value perspective.

Akshay Pitti: Just a word of caution on this, out of the Rs. 987 crore, like I mentioned just recently in the last question someone had asked Rs. 700 crore is executable in the next nine months. The rest, close to Rs. 300 crore is executable over a couple of years, like two to three years it has a longer term order book. So, the executable order book within the next nine months will be less than 30,000 tonne.

Avinash: This Rs. 700 crore, how much would be the volumes with respect to Rs. 700 crore which we will be executing in nine months?

Akshay Pitti: I can't tell you that off-hand right now. If you want a detailed answer, we will send you a reply in writing.

Avinash: There was a very a major jump in the order book in Quarter 2 vis-à-vis Quarter 1 of FY22, almost a Rs. 700 crore jump. So, which is the industry from where we got such a huge order, which led to such a jump in the order book?

Akshay Pitti: Pretty much from across the business segments that we serve, almost all of them we have seen increased orders visibility and orderf in-hand. So, earlier these guys used to work with shorter lead times, they used to push us on lead times, open PO's not more than a month, to month and a half in advance. Due to the global supply chain disruptions, now people are more willing to open a PO ahead of schedule.

See, their orders are not like something that they need to execute within one month or something that they need a quicker turnaround. They are all more than one year executable. So, they always had their orders in-hand. They never gave the visibility and orders to the suppliers. Now they have realized it's better to give it to the suppliers. So, that change in philosophy at the client end has led to the sudden spurt in order book.

Avinash: Thank you and all the best

Moderator: Thank you. We have the next question from the line of Rabindranath Nayak from Sunidhi Securities. Please go ahead.

Rabindranath Nayak: Sir, What is the EBITDA per ton for FY22?

Akshay Pitti: For FY22, you mean for Quarter 4 included what it will be?

Rabindranath Nayak: Yes, it would be, because you have guided last year it was being around Rs. 36,000 per tonne so what would be the figure for this year, FY22, if you can guide the FY23 numbers that would be helpful also, because this is a trajectory, we are required to understand that it is a trajectory will definitely improve in the coming period. So, if you can guide on that, so that would be helpful.

What is the total tonnage you are expecting this year to be executed because you have already done around the 34,000 tonnes? What would be the total tonnage you expected, that is my second question.

So, the third part would be, will you go for full manufacturing of motors for clients in future, if at all there is a requirement, you can go for full manufacturing of motors for the clients.

Fourth, you have mentioned two LOIs, one was expression of interest in your note. So, what is the revenue potential if it is getting converted to the order? What will be the yearly potential we are looking at?

Akshay Pitti: So, EBITDA per tonne, again should be about 40,000 per metric tonne, is what I would say. If you take up till now we have done close to Rs. 97 crore EBITDA as a company in nine months. We are estimating Quarter 4 to be flattish or maybe slightly improved over Quarter 3. So, we will end the year somewhere around Rs. 130 crore to Rs. 135 crore EBITDA. In terms of tonnage, we have done close to about 24,000 tonne. And again, like I said, Q4 looks flattish because of lack of new equipments coming in. So, the tonnage, we should end close to 32,500 to 33,000 that would give you EBITDA somewhere around 40,000 per metric tonne, for the full year.

Now, as far as manufacturing of the full motor is concerned, given the opportunity by our clients, we are more than willing and open to do it. Not that we are aggressively pushing it because that gets into the space of doing what my clients do. So, only if they give us an opportunity, we would like to do it, we would not like to force ourselves into that market space.

As far as LOI potential that you mentioned, so as I told you one LoI comes with a sticker value of Rs. 15 crore. The second one does not come with any planned rupee value or tonnage value; it's more of an exploratory product that we are developing for a very reputed two-wheeler manufacturer, for their EV application. If successful, it has a tremendous revenue potential, which I cannot quantify as of now.

Rabindranath Nayak: The LoI for the eBicycle you mentioned?

Akshay Pitti: Yes eBikes, eBicycle, and eScooter all.

Rabindranath Nayak: So, is it an Indian brands or it is overseas client?

Akshay Pitti: There are two clients which are Indian.

Rabindranath Nayak: Okay.

Akshay Pitti: And one is the JV with an international company.

Rabindranath Nayak: So, when we can see the, when the finalization of this order, can you please guide something on that.

Akshay Pitti: See one order, we have already received, we are developing the product. The other is a LOI, which is being converted to production orders. Right now, we are in sample order stage, soon it will be converted to a production order. So, it all depends on how long it takes for them to approve the part, validated at their end, test it out in the market. So, our activity will be done in a short period of time, then it's over to the client and their processes.

Rabindranath Nayak: And value-add orders, of the Rs. 987 crores order book, what would be the portion of the railways, can you please specify that?

Akshay Pitti: When I say railways, I mean locomotive business. This is including Indian Railways, Wabtec, our exports, anything to do with the locomotive segment of the business. Out of Rs. 987 crores the locomotive segment of the business should be close to Rs. 400 plus crore, across all geographies.

Rabindranath Nayak: Around 45% to 50%, you can say is the locomotives orders?

Akshay Pitti: Of the order book, yes, about.

Rabindranath Nayak: OK thank you very much

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

Shivang Joshi: Thank you for the opportunity and congragulations for a good set of numbers. I have a few questions. I will start with your incremental capacity addition you said that by FY23 you are targeting to reach 60,000 tonnes of capacity. So, what will be the incremental addition on the machining capacity if you can quantify?

Akshay Pitti: See I cannot tell you the incremental offhand, but at the end of FY24, the machining capacity would double from its existing 350,000 machine hours to 700,000 machine hours.

Shivang Joshi: So, it will be in proportion to your sheet metal capacity, the incremental additions that you will do, over FY23 and FY24.

Akshay Pitti: See it will not be exactly proportion, I don't understand what you mean by proportionate. It is based on what we see as a demand for those products and services. We are expanding looking at that. So, we are looking at increase in off take of shafts and machine components. So, therefore, we are increasing the machinery based on the current visibility that we have for my clients.

Shivang Joshi: When you are looking at EBITDA per tonne that is a function of how much value addition, you are doing that is what you have been explaining us. So, what would be your trajectory of EBITDA per tonne? I mean as you have already said 40,000 to 42,000 in FY23, but going ahead in FY24, FY25, what will be our medium term, long term estimate according to you for EBITDA per tonne?

Akshay Pitti: See beyond one year, I would not want to hazard a guess, because it also depends on the mix of products. Like I said, a new application like

EV also does a lot of excitement doesn't come with higher margin. So, if the proportion of EV business goes up. So, your margins per tonne will actually come down. But it comes at a better RoCE. So, you know it's a balancing act between various end-user segments. So, beyond FY23 today, it would be very difficult for me to hazard a guess.

Shivang Joshi: So, if you had given earlier a good trajectory that it could go up by at least 20% to 25% from the previous level to 40,000, over the current level of 40,000 to where will it reach?

Akshay Pitti: It has a potential, definitely, but it also would depend on the proportion of the product mix. So, we would say that we would like to project 42,000 with a potential upside,

Shivang Joshi: On the revenue mix so, see that's one of the previous participants, your answered to him, locomotives makeup roughly 40% or maybe more, as a part of your total order book. When we see the revenue mix, traction motors, railway components have been roughly around 30% range. So, going ahead, do you expect the contribution of railways as a percentage of overall mix to increase? If yes from what I understood you in the previous calls, is locos have a higher EBITDA per tonne. So, would higher revenue share from railways also increase the blended EBITDA per tonne, is my understanding right?

Akshay Pitti: See, just to correct you at one point, the order book is at 40% to 45% from the railway side, because they typically give you longer term visibility. The railway contracts are multi-year contracts which are spread over into the next years as well, sort of Rs. 987 crores like I said, like Rs. 700 crore is executable over this nine months, and the rest is over multi-year. So, the multi-year part is part of the Rs. 400 crores odd railway order book. So, if you see 1:1 does not mean that

45% of the order book from locomotive would mean that going forward locomotives will contribute 45% of revenue.

In terms of end-user application, we see minor up and down between the segments. So, sometimes renewal energy picks up, it drops a little, sometimes locomotive goes up a little. So, that little bit 2% to 3% change in the product mix will keep happening, quarter-on-quarter based on the business dynamics. But not more than that, the existing end-user mix, I think would continue going forward till a new disruptive things such as EV would come into the product mix. But something like that happening is at least a year and a half to two years away to be anything meaningful.

Shivang Joshi: Just a brief range, so what would be railways contribution according to you, around 30% which has been projected ?

Akshay Pitti: It will be around 30% to 35%. It may go down to 25%, it will go up to 35%. But on an annualized basis, be around 30% to 32%.

Shivang Joshi: If you could give a similar range for the major components like industrial and commercial motors or Power Gen, including renewable energy.

Akshay Pitti: It will be around the same. So, you should see the last two quarters, we have given you the data, it doesn't change much within the head, it's a function of what is driving a particular segment in that particular quarter. So, you would take consumer durables and appliances, since majority of our sales in that segment go to a ceiling fan business obviously, in the monsoon season, you will not have any sales. But December onwards those companies start pulling in their inventory for their peak season, which is summer. So, there will be certain seasonality to certain kind of businesses. For example, windmill business, you will not see it grow exponentially or contribute significantly in the monsoon season because installation of windmills will be lower.

Conversely, something like a stationary power or DG set business would be on the up during that period. So, it has certain bit of seasonality, each end-user segment based on its own peculiarities. But on an annualized basis, the product mix will be more or less similar. The only thing that will disrupt this equation or the pecking order would be the introduction of EV and like I said, it is a year and a half to two years away to being anything meaningful. Right now, it's all exploratory orders, product development and LoIs. But in two years, definitely it will bring some good volumes with it.

Shivang Joshi: Since you are catering to almost all the major players in India, so incrementally in the recent quarters, which segment has been driving more traction in terms of ordering enquiries from the major players, vis-à-vis the situation which was there maybe a year ago. And just confirming the special purpose motors are mainly used for if you could say that it's a proxy for new CAPEX so whether that new enquiries or LoIs have been seeing traction in that space.

Akshay Pitti: Yes, definitely. So, if you see quarter-on-quarter also, that is one segment that has grown, in percentage terms and in absolute terms. So, Special-Purpose Motors, which can be deemed as a proxy for steel, cement, sugar, and other infrastructure related business, that is seeing good flow of orders and the two notable orders that we received in the last quarter, one of them also is contributing from that segment itself, the TMEIC order of Rs. 15 crore is also from the Special-Purpose Motor segment.

Shivang Joshi: Will it be possible for you to give us an indication of what will be the percentage of Special-Purpose Motors, of your overall order book or whether it will be growing faster than the other segments. We just wanted to have an idea, rather as you said, it's a proxy for newer CAPEX. So, whether that cycle is actually coming in, we just wanted your views on the same, because you are dealing with the major players.

Akshay Pitti: See this is one of the barometer so apart from the Special-Purpose Motors, even a cement plant or a steel plant or a sugar plant, you will require regular motors as well. So, both complement each other it's not exclusive to each other. You know, like if it's a new expansion taking place. So, it will require Genset also on site, it will require some power plants, it will require, so it's a suite of services that you offer, not just one single thing, but yes Special-Purpose motors and Power Gen will outpace the others.

Shivang Joshi: Last question from my side that will be on your incentives, just wanted to understand the one just by sanctioning our approval that you are expecting in the coming months. That will be for FY21's incentive, right?

Akshay Pitti: Correct.

Shivang Joshi: So, you have a one year lag from the end of the financial year to the sanctioning of incentive.

Akshay Pitti: Typically it's about six to eight months right now because of the COVID, it has been slightly longer, but typically it takes about six months.

Shivang Joshi: And post sanctioning how long it takes for you to realize?

Akshay Pitti: The typical way this whole cycle works is that once we have completed our audited balance sheet, we have to apply to the Maharashtra Industries Department for the incentive claim, along with our GST returns and audit. After that application is submitted, it takes about two to three months for them to process the application and give us a sanction. And another three to four months for disbursement of amount. So, in a typical year, which is not impacted by extraneous factors, balance sheet is, the final year results are given by May or June. And by December you get the sanction, and by February or March you get the payment.

Shivang Joshi: And this payment will be in the form of credit in your GST?

Akshay Pitti: It has been in the form of cash. No, it's a reimbursement of GST. So, we first pay the GST and clear the goods. And then after the year, we file the claim for reimbursement of the same.

Shivang Joshi: Just confirming my understanding so this if at all, we are not and it is a State Government thing so SGST that you might have paid, you are getting the reimbursement of the same. So, going forward maybe five years later if you are not purchasing goods from Maharashtra, your eligibility by default for this incentive will go down?

Akshay Pitti: It is not related to our purchases; it's related to our sales.

Shivang Joshi: Sorry, it's not purchases, my bad, I meant sales within Maharashtra.

Akshay Pitti: Yes, it is based on our sales within Maharashtra. If we have the sales, we have the eligibility to claim the incentives. The reason that we have setup the facility in Aurangabad is that the highest concentration of our domestic client based is Maharashtra. And at a peak level, we will have far more sales than the requirement for our incentives.

Shivang Joshi: So, my incentive is going to Rs. 32 crore from FY22, the accounting of the higher income will come only from FY23.

Akshay Pitti: Yes, for the year FY22 we will be eligible for Rs. 32.4 crores. And that will be booked as income in the year FY23.

Shivang Joshi: And it will, for the next seven years, it will be more or less linear in the range of Rs. 32 crores till the time we exhaust the overall limit of the CAPEX done.

Akshay Pitti: Absolutely.

Shivang Joshi: Thank you so much for the opportunity

Moderator: Thank you. We have the next question from the line of Ankit Babel from Subhkam. Please go ahead.

Ankit Babel: Good Evening Sir sorry I joined late pardon me if I am asking repeat question, How has been the working capital in this quarter?

Akshay Pitti: Working capital was good, we are able to maintain the same level of days outstanding and inventory days, as H1 end. And we expect the same part to continue.

Ankit Babel: But you were expecting improvement from here, I mean your total working capital days was 99 days and you aimed to bring it down to 60 days.

Akshay Pitti: So, it's already down to from 97 to 92, so some improvement is there, when I say stable it is still some improvement. And we are working on it. And it will take time, see it will not happen overnight. So, we are fully committed to bringing it down.

Ankit Babel: And second question was again on the previous participants was asking about the EBITDA per ton. So, I understand that it depends on the product mix, but as investors what we should assume because the product mix might change, and we might not know how the product mix is going. So, once your full capacities, the 60,000-capacity come on stream. So, on that what are your plans in terms of product mix and then EBITDA per tonne, what are you targeting when the whole 60,000 capacity come on stream?

Akshay Pitti: See we are chasing both the lower EBITDA margin per ton business as well as the higher EBITDA margin per ton business. It's not like we are only focused on the higher ones. So, the lower ones would be your consumer durables, EV because there the value add and the scales are very different. So, the EV would be more like an auto ancillary kind of business, not like a discrete engineering manufacturing kind of business. We are also targeting increases in Indian Railways as well as other locomotive and Metro related businesses, which typically come at a significantly better EBITDA margin per tonne. So, when you go to 60,000, the above impact of high and low EBIDTA contributing products should even out and we should see around 42,000 EBITDA per tonne.

Ankit Babel: So, when earlier you had guided for Rs. 48,000 EBITDA per tonne, what was that in your mind, in terms of product mix and all those?

Akshay Pitti: See, we are still saying that it will go, we are being a little cautious because when we say a number then everyone holds to that number. So, we have decided to be a little conservative. Like I mentioned to your colleague who just asked a question little time ago that there is upside, we have been conservatively projecting it at 42,000. Once you get the economies of scale, it will definitely improve from here. So, if you are doing a tonnage of 32,000, and you are doing a tonnage of 60,000 obviously, your margins will improve due to the economies of scale. And that is what we had backed in when we said 48,000. I mean, if you apply any logic, it should come true. There is no doubt about it in my mind.

Ankit Babel: And what kind of sales volume you are targeting next year, this year, you will be ending some 32,500 to 33,000 tons.

Akshay Pitti: Next year we are targeting close to 40,000 tons.

Ankit Babel: And lastly, just again a clarification on this incentive. So, in the first three quarters, we have not booked anything. So, in 4th Quarter, we are expecting something?

Akshay Pitti: The incentive is once a year event for us. For FY21, we are yet to receive the sanction. The minute we receive the sanction, we have to recognize this as income in our books.

Ankit Babel: Okay, so that sanction would be?

Akshay Pitti: The sanction is expected by March end. So, it will form part of our overall FY22 income.

Ankit Babel: That you will book into Q4 only if you receive that sanction.

Akshay Pitti: Yes.

Ankit Babel: And that would be approximately around Rs. 15 crore which you mentioned.

Akshay Pitti: Yes.

Ankit Babel: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

Sudhir Bheda: Sir just one question I think in Q2 con-call you said that we are not expecting debts to go up by more than Rs. 25 crore, in spite of all this expansion. So, you still hold that view that debt will not go up significantly?

Akshay Pitti: Yes, I still hold that view see, the debt will come down because we will have the repayments of the previous debts. So, close to Rs. 40 crore debt is up for repayment in the next 12 months. Whereas, if you see, I said that we are going to add about Rs. 120 crore to 150 crore of CAPEX, over the next year, with 1:2 debt equity. So, about Rs. 80 crore of total debt will get added, Rs. 40 crore will get repaid. So, the net position will be about Rs. 40 crore. Then for the subsequent year we have Rs. 70 crore of CAPEX for FY24, again at 1:2 debt equity you know, you are adding maybe over Rs. 25 crore or Rs. 30 crore of debt. And again you will have a huge repayment. So, your debt will peak out. It is only to tide over the timing.

Sudhir Bheda: So, the Rs. 330 crore debts that can go to Rs. 370 or Rs. 380 crore kind of thing after the full expenses over, is it the right understanding?

Akshay Pitti: On an average basis, yes. On a peak basis, on a single quarter it may go up because of the CAPEX ongoing. And then it will drop the next quarter. But if you average it out, it will not go beyond that.

Sudhir Bheda: Thank you Sir

Moderator: Thank you. We have the next question from the line of Piyush Jain, an investor. Please go ahead.

Piyush Jain: Sir, as you mentioned about Pitti Castings, can you also throw light on Pitti Electrical Equipment and Pitti Components? What kind of businesses do they entail in their revenue, and whether merger is fine for them as well?

Akshay Pitti: So, Pitti Electrical Equipment and Components are our holding company, promoter holding companies. So, I don't see any merger possibility with them.

Piyush Jain: So, the only entity which has other business is Pitti Castings, correct.

Akshay Pitti: Yes.

Piyush Jain: Thank you

Moderator: Thank you. Ladies and gentlemen, that was the last question. We will now close the question queue. On behalf of Pitti Engineering, that concludes this conference. Thank you for joining us. For any further details meeting and for plant visits please be in touch with Rama Naidu from Intellect IR on 9920209623. You may now disconnect your lines. Thank you.