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

21st May 2024

To,
BSE Limited
Floor 25, P J Towers, Dalal Street
Mumbai – 400 001
Scrip Code: 513519

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

Dear Sir,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Transcript of the Audio Conference call for investors on 17th May 2024

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With reference to our letter dated 10th May 2024, intimating about the conference call with investors to be held on 17th May 2024, please find attached transcript of the aforesaid conference call.

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

This is for your information and record.

Thanking you,

Yours faithfully,
For Pitti Engineering Limited

MARY MONICA BRAGANZA
Digitally signed by MARY MONICA BRAGANZA
Date: 2024.05.21 18:20:56 +05'30'

Mary Monica Braganza
Company Secretary & Chief Compliance Officer
FCS 5532

"Pitti Engineering's Q4 & FY24 Earnings Conference Call"

May 17, 2024

Moderator: Ladies and gentlemen, good day and welcome to welcome to Pitti Engineering's Q4 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation.

Please note that this conference will be recorded. Joining us today on this call is Mr. Akshay S Pitti – Managing Director & CEO

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, over to you sir.

Akshay Pitti: Good evening and a warm welcome to you all for the Q4 and Full Year FY24 Earnings Call.

Before we open the floor for a Q&A session, I will briefly touch upon the highlights of the year gone by.

Our ongoing CAPEX in Aurangabad facility is on target. The enhanced capacity of 72 metric thousand tons per annum, there will be commissioned by September 2024. We have concluded the previously announced acquisition of Bagadia Chaitra Industries Private Limited on 6th of May 2024. With this, we have now gained access to both the facility in the strategically important South Indian market and an end user industry, which we previously did not serve. The scheme of amalgamation with Pitti Casting and Pitti Rail was duly approved by the NCLT convened meeting of equity shareholders and unsecured creditors of the respective companies. A joint petition has been filed with NCLT Hyderabad Bench and the same is reserved for hearing on 7th of June 2024. The board has approved fundraising of funds not exceeding Rs. 360 crores through issuance of eligible securities in one or more tranches, subject to approval of members at the forthcoming EGM.

I am happy to inform you that we have received the addendum to our incentives for investments in the Aurangabad facility. Consequently, we have accounted an incentive amount of Rs. 30.45 crores to Q4 FY24.

On the sales volume for Quarter 4:

We have achieved 11,435 metric tons as compared to 9,591 metric tons in Quarter 4 FY23, higher by 19.22% on a Y-o-Y basis. Total revenue for Q4 FY24 was Rs. 359.32 crores, up by 36.5%. EBITDA for the quarter was Rs. 48.64 crores compared to Rs. 40.56 crores in the previous year, registering a growth of 19.9%. PAT for the quarter stood at Rs. 40.36 crores, higher by 62.5%. For the full year of the sales volumes of 42,305 tons when compared to 36,297 metric tons in FY23, up by 16.9%. Revenue for the full year stood at Rs. 12,349.81 crores as compared to Rs. 11,017 crores in FY23, up by 11.79%. Net profit grew for the full year by 53.3% to Rs. 90.20 crores. The net debt for the year stood at Rs. 428 crores. The order book and schedule stands at about Rs. 800 crores.

We have also provided an investor presentation along with the detailed performance report for your perusal. I would now like to open the floor for the Q&A session.

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

Balasubramanian: My first question is regarding this Bagadia Chaitra Industries acquisitions and sir like when we can expect around Rs. 300 crores topline in this acquisition company and we earlier mentioned around 10% kind of margins, like, I just want to understand what's the rationale for these acquisitions and further why those company promoters sold the companies, any specific reasons for that?

Akshay Pitti: I can't comment on why the promoters sold that company that is something that they can answer. As far as the expectation from that company going forward in terms of comments that company has achieved about 14,000 tons of sales for FY24. For FY25, we are targeting about 16,000 tons of sales in the subsidiary company. In terms of margins, we expect the margins there to improve on better utilization of raw material between the two companies, the parent company and WoS. I have explained this in detail in the previous conference call on the rationale of the merger. So I think you can now refer to the notes from that call, which can answer the remaining queries on this particular point.

Balasubramanian: Sir, we have seen our clients like ABB and Siemens, they have posted good set of numbers in these quarter, so what kind of opportunities and what kind of order inflows we are missing in current point of time?

Akshay Pitti: Broadly, we are seeing good growth across all the end user segments. Obviously, railways is continuing to outperform all the other segments both domestically and internationally, but I would say renewables also is performing very well. So all the other segments that we track are performing very well.

Balasubramanian: On the export side, our contributions are around 35% to 40% range, so what kind of opportunities we have one of our key clients also expanding into metro side for new plant to cater international market. I just want to understand every player is talking about better opportunities on the export side, so what's your view on that, on the export side, what kind of opportunities you have especially on the railway side?

Akshay Pitti: The exports overall is continuing to remain strong despite the headwinds in the end markets such as Europe and US. Our exports remain strong. In addition to that, our indirect exports, the products that we supply to these entities in India and then they exported to their parent markets, also remaining robust.

Balasubramanian: Sir fundraising of Rs. 360 crores, how are we going to use those funds? We have already mentioned peak debt that is expected to be around Rs. 450 crores. Whether this fund will be utilized for debt repayment or further growth opportunities?

Akshay Pitti: The funds are targeted to be raised for multiple purposes including further opportunities, organic and inorganic growth as well as a reduction of debt.

Moderator: Thank you. The next question is from the line of Prathamesh Dahake from Motilal Oswal, please go ahead.

Prathamesh Dahake: I wanted to check upon two brief things, firstly details on the order book of Rs. 800 crores, so adjusted for price how much has it grown or reduced, what are the execution timelines, can you also give us some colour on split by sectors, split by geography, how much of it is domestic and how much of it is exports?

Akshay Pitti: The exact numbers I think we can get you if you send a request in writing, pending that or to top of my hand, I think about 25% to 30% of the order book is export side, the remaining is only domestic. In terms of execution timelines, this would be about Rs. 200 crores, which is more than one year forward and remaining is executable within the year.

Prathamesh Dahake: By sectors, if you could give us a brief idea.

Akshay Pitti: See, we track a lot of sectors, so to give that on the top of my hand, I don't think I can do that right now.

Prathamesh Dahake: My next question is around incentives. So what we generally seen is we account the incentives for a year as incentive receivables in our balance sheet and realized it in the next quarter of the next financial year, but this time, it looks like you have accounted it in P&L in the last quarter itself, it has something changed or was it sanctioned earlier this thing?

Akshay Pitti: No, if you recall, we have already accounted one tranche of incentive, if I remember correctly in Quarter 2, so this time we have got the 2nd addendum. So if you go back to our original Aurangabad incentive, we have invested about Rs. 120 crores, the first eligibility certificate, which we had received was for Rs. 103 crores, that amount was eligible over 7 years, which works out about Rs. 14 crores per year that we normally book. Then there was an expansion in Aurangabad facility, which was to the tune of another Rs. 65 crores worth of incentives. For this, the addendum was pending to be received from the Government of Maharashtra last financial year itself due to certain other reasons in Maharashtra that did not come in. Now we have received the addendum and therefore booked the incentive amount for two years, FY23 and FY24 for the enhanced value of the incentive, which is basically Rs. 65 crores in total, which will be accounted within the next 4 years. Two years we have accounted in Quarter 4.

Prathamesh Dahake: Understood, so if I were to see, there is another Rs. 220 crores, which will be expensed or amortized over the next 7 years till FY23 as incentive?

Akshay Pitti: So see, just to give you a break up on this for the next 2 years, we'll account roughly about Rs. 30 crores per year. With this, the original incentive claim would be finished. The current ongoing expansion including what we are planning over the next two years also will be eligible for the incentive scheme. This amount is expected to be somewhere between Rs. 300 crores to Rs. 350 crores based on actual spend in the facility, that amount will be realized over 9 years.

Prathamesh Dahake: Starting from?

Akshay Pitti: FY27.

Prathamesh Dahake: FY27, 9 years till FY35.

Akshay Pitti: Yes, it will be on the actual investment made till FY27 divided by 9 years starting FY27.

Prathamesh Dahake: Roughly Rs. 27 to Rs. 30 crores, I mean from FY25 till FY35 we can expect average Rs. 30 crores of incentive per annum, right?

Akshay Pitti: Yes,

Prathamesh Dahake: Okay, understood. My next question is let's say if we were to look at Pitti on a standalone basis, there is a plain machining revenue and there is motor assembly revenue. Can you give us a broad split as to how much is just plain machine vanilla revenue and motor assembly revenue, how much it is?

Akshay Pitti: So if you take plain vanilla machine revenue, which are basically of components and are not going into any other motor assembly that should be in the vicinity of about Rs. 95 crores.

Prathamesh Dahake: 95 crores, agreed and how do you see the split going forward, I mean from the investor presentation, we are aware how much metric tons is being sold, but then since we're adding machine capacity, how do you see the plain machining component increase in the next 3-4 years versus the motor business going ahead?

Akshay Pitti: We are working internally to take out a proper metric through which all of you can track this and I hope to have that by the end of this quarter.

Prathamesh Dahake: Okay, and how much gross margins do we enjoy there in this plain machining business?

Akshay Pitti: Plain machining business, the gross margins would be somewhere around 45% to 50%.

Prathamesh Dahake: Okay, so Pitti casting business is something which will aid the 45% gross margin business, is it fair to assume that?

Akshay Pitti: Yes, that's fair to assume that.

Moderator: Thank you. The next question is from the line of Naysar Parikh from Native Capital, please go ahead.

Naysar Parikh: So first question is on the order book. If we look at last year March 2023, I think you were around Rs. 825 crores, now we are around Rs. 800 crores, so what is the reason we're not seeing growth there and how do you see FY25, if you just keep the merger and the acquisition aside, but just on a standalone organic basis, how should we think of FY25?

Akshay Pitti: FY25, I would prefer to give more volume projection what they're looking at. In terms of sales, we did 42,000 tons in the last financial year. For the current financial year on a standalone basis, we are looking at about 48,000 tons of sales and at a wholly owned Subsidiary level, we are looking at about 16,000 tons of sales.

Naysar Parikh: So it's 48 plus 16 is what you are looking at and at the acquisitions you've done the 16,000 tons, the EBITDA per ton over there after the material benefit that you will get and all the productions that you do, what should we expect as the EBITDA per ton over there on the 16,000 tons?

Akshay Pitti: See the benefits of the integration and up to over the next 12 to 18 months at the end of that entire process, the EBITDA over there should be in the vicinity of Rs. 18,000 a ton.

Naysar Parikh: So that will be 18,000 per ton and for our 48,000 per ton should we assume we'll maintain this 42,000 ton that we showing this quarter, is that a fair assumption?

Akshay Pitti: This would be going higher. It should be in the vicinity of 45,000 per ton for the full year on a standalone basis. We have the merger of the Pitti Castings also happening, so that will also aid the EBITDA number.

Naysar Parikh: Okay, so that 42,000 to 45,000 will partly be because of Pitti Castings also?

Akshay Pitti: No, 45,000 is on a standalone basis without the benefits accruing from the merger.

Naysar Parikh: Understood, got it and the order book, just one thing, can you give in volume terms this year and last year, what is the growth in volume terms?

Akshay Pitti: I don't have the full firm number with me, but it should be in the vicinity of about 36,000 tons at the end of the last financial year and the growth in volumes stands at 17%

Naysar Parikh: And this year?

Akshay Pitti: I am saying for FY24 end.

Naysar Parikh: Okay, understood and just last thing, the railways like you said is obviously grown significantly. Is it still all exports, is there some domestic component and how should we think of this railway thing, how the traction over here in that particular segment for you?

Akshay Pitti: So on the railway side, the Indian business is still maturing for us. If you see 40% of revenues on railway side translates to roughly about Rs. 500 crores of topline coming from railway business for the full year. Out of this Rs. 500 crores of topline, roughly about Rs. 125 crores is the contribution from the domestic segment, the remaining is entirely export based. We see the export side remaining flattish over the next couple of years, while the domestic should grow more than 100% within the next one and half years.

Naysar Parikh: Okay and we do we have like confirmed orders or is that something that we think or we are still at the PO tendering stage in the domestic side?

Akshay Pitti: So on the Indian side of the railway business, we are basically on two sides, one which we supply to the OEM such as Wabtec, Alstom, Bombardier, Medha, so that business is not tender based. We have to develop the products and they have to kind of do out those products in the field with the Indian Railways and then they have to study contracts. So that business is I think almost fully developed and will start contributing to revenue from this financial year. As far as the direct supplies to Indian Railways is considered, we have to go through certain field trials, which should be completed by October and we should start bidding on tenders from October onwards for commercial supplies.

Naysar Parikh: The EBITDA per ton, would it be similar or there could be some when we work with Indian Railways in the L1 and all that, will there be some kind of a compression there?

Akshay Pitti: See on the lamination side, EBITDA per ton would be similar. On the machine components what we supplied directly to Indian Railways would be slightly lower in margin when compared to OEM.

Moderator: Thank you. The next question is from the line of Sanchit Narang from Narang Family Office, please go ahead.

Sanchit Narang: So my first question is regarding EBITDA per ton. If we see it from your presentation, the EBITDA per ton is flattish instead of we doing the more percentage of machining, that is always margin accretive, so why is that?

Akshay Pitti: The lamination tonnage also has gone up, so it's not just that we've done more machining, there's more tonnage as well. You can't just take 1:1 correlation on that sense.

Sanchit Narang: Okay and moreover what I wanted to know that we being in a converter business, then the electric steel raw material prices have gone down, but our EBITDA as a percentage should have gone up, but it has gone down to 14%, why is that?

Akshay Pitti: You mean for the Quarter 4 or for the full year?

Sanchit Narang: For the Quarter 4?

Akshay Pitti: Yes, so in Quarter 4, we have certain raw material transactions with regard to Bagadia Chaitra. Because of that, we have higher sales, which will not be there going forward once it's become a WoS. We are supplying raw material to the WoS. Once it becomes WoS, w.e.f. 6th May, so for the last quarter, we had actually sold some raw material to them, which comes in revenue. And secondly, we have also accounted for other income, which is the incentive income, which is not added to EBITDA, but increases your topline by about 10%.

Sanchit Narang: And sir, what is the rationale behind raising funds as we have picked our debt as well to the limit that you told in previous calls?

Akshay Pitti: So we are still planning more growth in some of our strategic sectors and we see that having that capital returns will help us going forward.

Sanchit Narang: Okay, so we can expect the capacity expansion plan going forward from there as well what we have told for past 2 years?

Akshay Pitti: Yes.

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

Sanjeev Zarbade: I wanted to get an idea about the size of the components business by FY27?

Akshay Pitti: Firstly, if I just take the component business, there are certain components that we make which go into the motor and generator side of the business. Then there are certain components that we make which have nothing to do with the motor and generator side of the business. If I combine both of these, today this is about Rs. 270 crore business for us. These standalone machine components, which are not going into any motor or generator assembly, this is about Rs. 90 crores, topline. This combined business we see it is about Rs. 500 to 700 crores over the next 2 to 3 years.

Moderator: Thank you. The next question is from the line of Khushbu Gandhi from Share India Securities, please go ahead.

Khushbu Gandhi: So my first question is on Bagadia Chaitra. So we did the acquisition from this quarter and their revenue will be merged with our financials, right?

Akshay Pitti: Yes.

Khushbu Gandhi: Yes, so can you just give me an idea what was the revenue in FY24 and what was the EBITDA per ton or what was the margins over there?

Akshay Pitti: Their revenue was about Rs. 250 crores, their EBITDA was about Rs. 14.5 crores and EBITDA per ton was about Rs. 10,500.

Khushbu Gandhi: So, Sir for the next year for FY25, how do we see the improvement in EBITDA per ton in Bagadia, I know you have given a guidance that overall, on a consolidated basis will be improving to 15%, but if I see on a standalone of Bagadia, how much improvement can we see in FY25?

Akshay Pitti: See on Bagadia side, one on the volume side, we should be going to the 16,000 tons in the current financial year and on EBITDA, it's a 12 to 18 months journey at the end of which we'll be having about 18,000 EBITDA per ton in that entity.

Khushbu Gandhi: Okay, so in FY26 we'll be seeing an improvement initially, right?

Akshay Pitti: The improvement will start from Quarter 2 onwards and over the next 18 months we should be going to about 18,000 EBITDA per ton in that entity.

Khushbu Gandhi: Okay and so when you give us the guidance of the sales of 48,000 plus 16,000 metric tons on a consolidated, so from the 16,000, if you can delete that majorly that would be coming from any extra component, which will be getting through Pitti Casting?

Akshay Pitti: See Pitti Casting merger, as you know is pending. We will not get any lamination business from Pitti Casting. Basically we'll get castings business for which we can do machining going forward.

Khushbu Gandhi: Okay, so are we expecting this merger to be done at least in the first half from whatever date till now, which we have received?

Akshay Pitti: We have received the requisite approval from shareholders and creditors and the case is pending in front of NCLT and the hearing is due on 7th of June. On the timeline, I can't give you anything beyond that.

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

Balasubramanian: Thank you so much, Sir. Sir in the automotive segment, earlier we are like plan to enter into IC part of the business with generator related products and we also like supplying to 2-wheeler on the EV side and I just want to understand right now EV is picking up, so what kind of order inflows or any thought process on in future in those segment?

Akshay Pitti: On the EV motor side, even today most of the motors are still imported from China. Hardly any motors are being manufactured in India, so as and when the localization of that component takes place, definitely we will be looking at that as an opportunity.

Balasubramanian: From the non-automotive segments, earlier we guided around Rs. 500 crores of topline by FY27 and any further improvement is expected like what's the target for the next 4 to 5 years' timeframe?

Akshay Pitti: Do you mean the machine component side of the business?

Balasubramanian: Yes, sir.

Akshay Pitti: So on the machine component side of the business, we still maintain that we should book at Rs. 500 to 700 crores of topline from that business.

Balasubramanian: Right now we have some extra land for this new acquisition company, so any further like a CAPEX expected or any maintenance CAPEX expected in next 2 to 3 years' timeframe?

Akshay Pitti: In the acquired company, we don't have any extra land, the facility in Bangalore Bagadia Chaitra is to be saturated. We will be looking at expansion there may be in FY26.

Balasubramanian: If you could share our clients' next site like how much revenue is coming from ABB and Cummins of top 5 clients mix or top 10 clients mix in this financial year?

Akshay Pitti: Top 5 clients will be about 60% of revenue, I can't give you the packing order, but the top five clients would consist of Wabtec, Indian Railways and Siemens among others**.**

Balasubramanian: After this 72,000 tons per annum, any further plans, which you have mentioned around more than 5 lakh tons of capacities available in the industries and right now, the overall railways and the entire CAPEX is going on in capital goods sector, so any further like growth plans we have?

Akshay Pitti: This capacity that we are expanding would be commissioned by September and should be good for us over the next 2 years. We will be looking at expanding for business that we foresee in FY27.

Balasubramanian: Like on that or if I am looking at volume side like the value-added component side have seen good growth on the volume side. And however the loose laminations are in single digit year-on-year basis. However, in assembled and value-added, 24% growth, so we can expect that same kind of double digit growth in value-added component side?

Akshay Pitti: See, with the acquisition of Bagadia Chaitra, we should be seeing actually on a consolidated basis more on loose going forward as well.

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

Prathamesh Dahake: So my first question is, I guess in fourth quarter FY24, our volume contribution for value-added products moved to 79% when compared to 75% in Q4 of FY23, which I guess must have resulted into 3% improvement in gross margin. But on an annual basis, the contribution from value added products has increased from 75% to 76% in FY24, but still the gross margin improved by 4%. What is the reason behind the same? Is that something that the products which are way higher in realizations are not being captured in terms of volume terms or is it due to economic scale of RM? What is the reason behind the same?

Akshay Pitti: Yeah, I think it's the volume itself. It's assembled and value added. So anything which is not in loose condition is typically included into assembled and value added. So not all assemblies are alike in terms of percentage of value add on to the product. So this may be because the percentage of, if I may use a word lower value-added assemblies vis-à-vis higher value-added assemblies or higher in the ratio towards the lower value-added assemblies.

Prathamesh Dahake: It answers the question. Then there could be levels in the value-added segment as well.

Akshay Pitti: Yes.

Prathamesh Dahake: And you also mentioned that machining component parts would be Rs. 500 crores worth of business. So is it fair to assume that it will be achievable by FY27 end?

Akshay Pitti: Yes.

Prathamesh Dahake: And if we were to look at the split of that Rs. 500 crores, how much of it would be motor related and non-motor related?

Akshay Pitti: Yes, will be about two-fifth non motor and three-fifth would be motor oriented. About Rs. 200 crores would be non-motor and Rs. 300 crores would be motor oriented. If you just look at today's numbers out of Rs. 270 crores, about Rs. 90 crores is non motor and about Rs. 180 crores is motor oriented. Then Rs. 90 crores non-motor oriented will grow to about Rs. 200 crores in the next 2 years and the Rs. 180 crores of revenue which is coming from motor side and generator side of the business will grow to about Rs. 300 crores.

Prathamesh Dahake: By FY27 end right?

Akshay Pitti: Yes.

Prathamesh Dahake: So our plans around debt repayment, do they change post the fundraise or how are your plans around it? I mean currently we have Rs. 500 odd crores of total debt and out of your total debt, what are your plans about how do you want to see the debt position as of FY27 end?

Akshay Pitti: See from now till FY27 end, there's a lot of time and it all depends on what kind of inorganic and organic growth opportunities we see going forward. The net debt picture will be dependent on a lot to do with that, the fundraise is just one part of it.

Prathamesh Dahake: But then I guess in one of our previous con-calls, you have mentioned going the ambition of net debt zero by the next 2 years. So the plans around that execution still remain the same?

Akshay Pitti: See, unless and until we see something dramatically changing, we are committed towards that plan. If it is a great opportunity on growth, whether organic or inorganic, we will obviously prioritize that over the previous target of being net debt free.

Prathamesh Dahake: Understood. I had one last housekeeping question. So in my current balance sheet, what is Rs. 64 crores of other non-current asset and Rs. 116 crores of other current assets sitting on our books?

Akshay Pitti: Those with the capital advances for the ongoing CAPEX.

Prathamesh Dahake: And Rs. 116 crores?

Akshay Pitti: The Rs. 116 crores would be the capital advances.

Prathamesh Dahake: And Rs. 64 crores of other non-current assets that too gives you?

Akshay Pitti: This would be tools, dyes and fixtures which are depreciated along with the industry incentives that we are supposed to receive from the government.

Prathamesh Dahake: And how much would those be in those Rs. 64 crores incentive receivables?

Akshay Pitti: The other current assets is about Rs. 115 crores, of which Rs. 50 crores is industrial incentives yet to be received from the government. Rs. 48 crores we accounted last financial year. Most of it is not received till now, will be received by somewhere around November or December as per the pattern. And the remaining are basically your GST and other those kind of things, the other non-current assets.

Prathamesh Dahake: Rs. 64 crores break up right?

Akshay Pitti: Rs. 115 crores breakup.

Prathamesh Dahake: And what about the Rs. 64 crores of other non-current assets?

Akshay Pitti: That would be Rs. 62 crores would be capital advances. And the remaining deposits with government bodies such as electricity, etc.

Prathamesh Dahake: So maybe once the CAPEX is done, that will also come down, right?

Akshay Pitti: Yes, that will come down once the CAPEX is done.

Prathamesh Dahake: So whole of CAPEX 17,000 of metric tons of sheet metal and the machining arts will be done by September, fair to assume?

Akshay Pitti: The sheet metal side will be completed by September. The machine hours will still take a little bit of time to commission.

Prathamesh Dahake: By H1, how many machining hours can we expect total?

Akshay Pitti: By H1 end, about 600,000 machine hours will be commissioned.

Prathamesh Dahake: And the rest by next H2?

Akshay Pitti: Yes. Next December itself.

Moderator: Thank you. The next question is from the line of Karan Kamdar from DR Choksey Finserv Private Limited. Please go ahead.

Karan Kamdar: So from the previous question, I think I got a part of my answer. So what I was looking at is the change in working capital which is ahead of Rs. 134 crores in the cash flow. So I think bigger amount of it comes from the other current assets and the other non current assets, would that be correct?

Akshay Pitti: No, it's not just that the big change in working capital also comes from the fact that the sundry creditors which you see year-over-year have reduced dramatically. This is because we are changing actually our procurement strategy. Earlier the procurement used to happen from vendors whom the contract used to be on a calendar basis, not a financial year basis. So now we are trying to align our purchase contracts with the financial year. So as a result in quarter one, we procured a lot of material out of contract period and now we are going into the regular contract, wherein we'll have those sundry creditors financing the material not on cash basis basically.

Moderator: We will proceed to the next question, which is from the line of Pratik from CCIL. Please go ahead.

Pratik: So my question is actually, you know as we are expecting that the revenue would be start coming from September onwards for the CAPEX and we are raising 350 odd crores for the some growth purpose for organic or inorganic growth. So by FY27 or mid FY28, what could be the max topline that we could be expected?

Akshay Pitti: In terms of tonnage I can guide you better than topline because the revenue is subject to raw material price changes we are targeting including the WoS about 80,000 tons of steel by FY27.

Moderator: Thank you. We have the next question from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: I was just continuing the question asked previously. So on the working capital, can you please complete that what you were saying?

Akshay Pitti: So see, we have an annual contract which was based on a calendar year with our vendors vis-à-vis financial year basically Jan to December instead of April to March. So in the last quarter, we did a lot of purchases outside of contract to allow us to realign these contracts to our financial year basis. So lot of these procurements were done on cash and on spot purchase basis. Therefore our sundry creditors have reduced when compared to the year basis. While our inventories have increased to provide for this change in working capital structured because of procurement structure, going forward, this will completely change once again, we'll go back to the old system wherein we have creditor days payable which is in the vicinity of about 100 creditor days.

Naysar Parikh: So this is just a one-off, right?

Akshay Pitti: There's one-off, this is actually realigning the structure so that we can get efficiency on the balance sheet going forward.

Naysar Parikh: And just one more question was on the machine parts business that what is the margin that we make on that business in this year? What was the margin we made and as we scale up that to 500 crore, is this scope where we can do high value add and kind of get better margins?

Akshay Pitti: Machine components, our gross margins are in the vicinity of about 40%-45%. And that margin is actually much higher than the overall company's average margin, if you see. Going forward, the components that we are targeting will be in the similar margin profile.

Moderator: Thank you. We will move on to the next question which will be from the line of Akash Singhania from AART Ventures. Please go ahead.

Akash Singhania: My question is on EBITDA per ton, which is around for the last 6 quarters, if I see it has remained constant at around 42,500. So normally I was expecting some increase. So can you give us some color why it has remained stagnant for the last 6 quarters?

Akshay Pitti: See, nothing much has changed in the business model in the last 6 quarters. What's going to change in the next couple of quarters will actually give you the increase, which is the machine component business increasing significantly the acquisition of the entity in Bangalore, which will help us in better material utilization and better economies of scale going forward. So all those positives are yet to accrue and as they accrue, the margins will improve.

Akash Singhania: And as you mentioned around 45,000 per ton for FY25 and if going forward for the next 2 to 3 years, should we see a steady increase from 45,000 to?

Akshay Pitti: On a standalone basis, we should be at about 45,000 EBITDA per ton in this year. This is without considering the WoS and without considering the amalgamating company, the consolidation that WoS will actually pull this number down as they are at a much lower EBITDA per ton margin. On a standalone basis, again going forward, if you see for 45,000, we should be moving to the vicinity of 48,000 over the next 2 years after that, as further economies of scale and better operating leverage kicks in.

Moderator: Thank you. The next question is from the line of Karan Kamdar from DR Choksey Finserv Private Limited. Please go ahead.

Karan Kamdar: So I just wanted a little more clarity on the working capital part where you were saying that you are realigning the financial year and the calendar year. So I wanted to understand how that would benefit us and what kind of benefits would accrue to us by doing this change?

Akshay Pitti: If you see, typically purchase contracts are calendar year based and now we're moving them to financial year. This will help us better align our procurement to our financials. To do the switch, we have to do a lot of purchases in quarter one on a cash and carry basis vis-à-vis the contracted structure in which we have credit available. Therefore, in quarter one, the sundry creditors have gone down dramatically when compared to the average creditor days in the history of the company. This will not be continued going forward. Now that we are into the financial year and the contracts the suppliers have been aligned as such, we will go back to procuring on a credit basis rather than a cash and carry basis. Therefore our sundry creditors will increase and the more working capital will be released basically from the system.

Karan Kamdar: So we will go to our cash conversion cycle of FY23?

Akshay Pitti: Yes, it will be better than FY23. This has been done to improve it further.

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

Abhijeet: So my question was regarding the expansion and its timeline, which has been answered. So can you shed some light on how long will it take for optimum utilization?

Akshay Pitti: So the optimum utilization of 80% can be achieved by FY27.

Abhijeet: And the other question was regarding the fundraise plan. Since the raising for growth opportunity plus debt reduction, so can we expect debt reduction by the end of FY25?

Akshay Pitti: It depends on the fundraise, right? Whether the debt will reduce or not.

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

Sanchit Narang: Just a followup, what is our capacity utilization guidance in terms of tonnage in Pitti standalone going forward in FY26 and 27?

Akshay Pitti: So for FY25, we are doing 48,000 MT sales volume as our target. For FY26, we will be about 54,000 MT and then the peak utilization of 58,000 MT in FY27.

Moderator: Thank you. As there are no further questions, ladies and gentlemen, we have reached the end of the question and answer session. And on behalf of Pitti Engineering, that concludes this conference. Thank you for joining the call. For further queries or visiting the plant, please be in touch with Rama Naidu from Intellect PR on 9920-209-623. Thank you for joining us and have a wonderful day.

(This document has been edited to improve readability)