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

2nd June 2023

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 30th May 2023

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With reference to our letter dated 20th May 2023, intimating about the conference call with investors to be held on 30th May 2023, 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: 2023.06.02 17:40:50 +05'30'

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Pitti Engineering Limited

Q4 FY23 & FY23 Earnings Conference Call

May 30, 2023

MANAGEMENT: MR. AKSHAY S PITTI – VICE CHAIRMAN & MANAGING DIRECTOR,
MR. PAVAN KUMAR, CFO
MR. RISHAB GUPTA, PRESIDENT
MR. SANDIP AGARWALA, PRESIDENT
MR. VARUN AGARWAL, PRESIDENT

Moderator: Ladies and gentlemen good day and welcome to Pitti Engineering's Q4 FY23 and full year FY23 Earnings Conference Call.

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

Joining us today are Mr. Akshay S. Pitti – VCMD, along with the senior management team of the company. 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 conference over to Mr. Akshay Pitti. Thank you and over to you sir.

Akshay S. Pitti: Thank you. Good evening and welcome to our Q4 FY23 and full year FY23 earnings call. We hope you had a chance to review our results, a copy of which is also available on our website. I would also touch upon the financial and operation performance of the company and then open the floor for a Q&A session.

This quarter our revenue from operations stood at Rs.247.51 crore as compared to Rs. 271.39 crore on a year-over-year basis down by 8.8%. However, the sales volume has increased by 10.92% to 9591 tons from 8647 metric tons. Capacity utilization during the quarter was 74.14%. Blended EBITDA per ton stood at Rs. 42,290 as compared to Rs. 40,898 per ton up by 3.4%.

During Q4FY23 we have reported an EBITDA of Rs. 40.56 crore as compared to Rs. 35.37 crore increased by 14.67% on a YOY basis. We have recorded net profit of Rs. 24.83 crore, as compared to Rs. 19.79 crore, up by 25.47 % on a YOY basis. We have accounted for Rs. 14.76

crore incentives in FY23. The further approvals are under process with Government of Maharashtra, which is expected to be received in the first half of FY24. For FY23, revenues were Rs. 1100.17 crore as compared to Rs. 953.82 crore, registered a growth of 15.34%. Reported EBITDA of Rs. 151.39 crore as compared to Rs. 132.63 crore, increased by 14.15%. Company has recorded a net profit of Rs. 58.83 crore as compared to Rs. 51.89 crore. Our cash accruals stood at Rs. 103.48 crore. Capacity utilization for the year was 71.32%. Net debt has declined from Rs. 290 crore to 225 crore. Consequently, the net debt to equity stands at 0.67. Board of Directors have recommended a final dividend of Rs. 1.2 per share, total dividend amounting to Rs. 2.70 per share including the interim dividend.

Expansion related work is on track and we shall start installing the machines in the third quarter. We expect to complete it by year end. Overall demand outlook for FY24 continues to remain strong led by key segments like railways and power generation. New business opportunities in pumped hydro and automotive will start contributing meaningfully from this year onwards. Our order book forecast stands at Rs. 823 crore. For the year, sales volume was at 36,297 MT and looking at the demand outlook for FY22, we expect to deliver 42,000 metric tons of sales during the current year. We have also provided an investor presentation with detailed performance report for your pursual. I now open the floor for the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rabindra Nath Nayak from Sunidhi Securities.

Rabindra Nath Nayak: Actually, there is an observation I see from the current reported numbers. So, if the incremental volume we have done in FY23 as compared to the incremental EBITDA we have generated in FY23 because if I understand correctly, we have done our significant value addition journey from FY21-22 onwards. Am I right sir?

Akshay S. Pitti: I'm not able to understand very clearly what you're trying to say. Your voice is not very clear.

Rabindra Nath Nayak: Incremental EBITDA for incremental tonnage we have delivered in FY22, it was incremental EBITDA to incremental tonnage around Rs. 52,565. But this year FY23 it has declined to 43,180. So how we should look at it, incremental value addition going ahead whether what is attributable to this decline, if at all we should look at this factor seriously going ahead if it is a measure to see the value addition the company is doing.

Akshay S. Pitti: Are you saying that the EBITDA per metric ton has gone down from FY22? That is what you are trying to say?

Rabindra Nath Nayak: Incremental EBITDA. I am just explaining again. So, we have done around total tonnage around 36,297 MT in the total sales in FY23 as compared to 31,945 tons in FY22. So incrementally we have done around 4,351 tons of delivery in FY23. But the EBITDA in FY22 was Rs. 132.63 crore without considering the other income and EBITDA in FY23 was around Rs. 151.39 crore. So, if I divide these two, I'm getting a number of Rs. 41,519 in FY22 and I'm getting a number FY23 Rs. 41,709 per ton in FY23. So, I'm just giving an indication whether we should look at this factor looking at how the company is doing the value addition going ahead or whether we should not look at it. If at all we are looking at then what is it attributed to?

Akshay S. Pitti: See the incremental EBITDA per ton will be also coming from the machining business, the machine components business because we are dividing the cumulative EBITDA by the tonnage. So, the incremental EBITDA is not only accruing from the sheet metal part of the business.

It's blended of both verticals. So, it's not just that the value-added lamination for assembled lamination will increase the EBITDA pattern, it will also increase the EBITDA per ton. But machining because you're doing that machining on the same tonnage or you're doing a machine component. And because you're doing the machine component which is not related to the sheet metal tonnage, those are side parts or core products which go along with the sheet metal product that will cost for higher EBITDA per ton.

Rabindra Nath Nayak: Just tell me what the total volume we can do in FY24 is and what kind of EBITDA per ton we are looking at? Because we have increased our machining hours in FY23 from total 4, 33,000 to around 4,60,000. So how we are looking at the value addition in FY24?

Akshay S. Pitti: In terms of sheet metal tonnage as I mentioned the target is about 42,000 metric tons for FY24. In terms of machining, we'll continue to add the machining capacity as per our CAPEX plan and the EBITDA per ton due to both of these should track towards Rs. 42,000 to Rs. 45,000. That is the expectation. Currently it's hovering around Rs.42,000 per metric ton, if you see Quarter 4 it's Rs.42,000 per metric ton. From here we expect it to grow quarter-on-quarter and eventually settle somewhere at Rs. 45,000 at full utilization.

Rabindra Nath Nayak: Secondly in the sector wise exposure you have given around 33% is coming from railways. So, can you please give some outlook on this segment going ahead? And another interesting thing that I observed in FY23, appliances and industrial and commercial witnessed a decline in revenue. So, in your presentation I'm just comparing the previous year numbers with the current year's numbers. So due to customer demand for the appliances and durables it is quite understandable that the appliances might not have done well. But if we look at the industrial segment, your major clients particularly they have done well in FY23.

So why there is a decline in industrial segment whether the clients are internalizing or we are losing market share, anything you can explain better on this?

Akshay S. Pitti: If you see on a year-on-year basis for Q4, although the sales volume is up by 10%, the revenue is down by 8%. This is on account of decline in steel prices. As you know we have a price variation clause with our customers wherein any increase or decrease in steel cost is passed on to them. So, the quantity of sales to the industrial and commercial segment of our business has not declined. It has remained constant. In fact, it has grown modestly. But in rupee terms it shows a decline.

Rabindra Nath Nayak: That means the other segment is also similar kind of things have happened?

Akshay S. Pitti: Yes, in the other segments the volume has grown exponentially. And also, the value-added products such as machine parts goes into those segments mainly, the railways and the special purpose motors and the power generation renewables.

Rabindra Nath Nayak: And regarding the working capital, it is progressively you have done a very good job in the working capital, thing is that. But one thing I observed that there is a significant reduction in the debtors days and also the inventory days that you have highlighted in the past calls and also that this is in a targeted level you have brought it down. That is quite commendable. But if we see the payable days, it is increased substantially. So, can you please give some sustainability of this working capital? Whether there is any further scope of reduction of working capital is there, if you can throw some light on.

Akshay S. Pitti: Further scope on the cumulative working capital days will not be possible. See this data we have taken on one particular day. The right way to look at this is the average working capital days during the year.

On an average basis we feel that about 75 days is a good number in our industry looking at the client credit requirements as well as the procurement requirements.

Rabindra Nath Nayak: So this high payable days, it is quite maintainable or you can expect similar kind of trend going ahead or it is going to come down?

Akshay S. Pitti: You can expect the same payable days going forward and the same kind of debtor days going forward.

Rabindra Nath Nayak: What is the CAPEX for this year, total capex we have done in FY23 and what is the budget for FY24?

Akshay S. Pitti: Just one second. So, the capital expenditure incurred during FY23 was Rs. 103 crore and the remaining CAPEX which has to be expended in the current financial year about Rs. 190 crore. That includes pre operative expenses as well.

Rabindra Nath Nayak: And regarding your view on this merger of Pitti Castings going ahead if you can give some performance of Pitti Castings in FY23, if I'm not wrong we were around the turnover of Rs. 137 crore in FY22. What is the turnover for FY23 and whether it will remain profitable in this year or it is still not profitable?

Akshay S. Pitti: I'm sorry I'm not in a position to comment on that particular thing.

Rabindra Nath Nayak: And lastly one number I want to know what is a gross sale for this year including GST for FY23?

Akshay S. Pitti: **Rs.** 1,240 crore.

Moderator: The next question is from the line of Balasubramanian from Arihant Capital.

Balasubramanian: I want to understand segment wise where we are witnessing stronger, higher demand and where we are lacking. Especially in FY23 on the full year basis we have witnessed a strong growth in traction motor and railway components and mining and oil & gas and renewable energy side. So, if you could throw some more light on that segment wise, end-user application wise where we are witnessing more traction. That would be really helpful.

Akshay S. Pitti: The traction motor and railway component business will again continue to outperform in the current year in terms of growth. The other place that we see good growth continuing is power generation and renewable energy.

Balasubramanian: Like your target is around 42,000 tons in FY24. What would be that assembled and value-added mix? We may expect 75% or it's more than that.

Akshay S. Pitti: In the current year as the power generation business is going to grow significantly, the mix might change unfavorably a little bit. So, we can expect that the assembled business should be about 33,000-34,000 tons and the lose business will be the remaining.

Balasubramanian: On the CAPEX side that 72,000 tons per annum if you could share stage wise like whether the construction part is done like when is the machinery is expected to come.

Akshay S. Pitti: Construction is ongoing both in Hyderabad and Aurangabad and the equipments are also enroute. We expect to start the installation of machines in Quarter 3 and the completion of that would be very quick, once the machines are installed.

Balasubramanian: This incremental addition in capacity we may expect on blended basis around 60% capacity utilization or lower than that?

Akshay S. Pitti: For the current year I've already mentioned that our target is about 42,000 metric tons and the capacity utilization will be on the capacity available based on number of days for the whole year. For next financial year we are targeting in the vicinity of 50,000 MT. So that should take us to about 60% on the expanded basis. And in our industry the typical thumb rule is that beyond 80%. Typically, you operate about six days a week to preserve the machine and carry out the relevant preventive maintenances.

Balasubramanian: On that Rs. 190 crore CAPEX for FY24 how much for this incremental capacity and how much for maintenance CAPEX?

Akshay S. Pitti: Majority of it entirely is towards the incremental capacity in machining as well as lamination.

Balasubramanian: Earlier we talked about around Rs. 190 crore CAPEX for modernizing the plant in Hyderabad. That CAPEX when it's expected to come?

Akshay S. Pitti: It is part of this modernizing the Hyderabad related lamination facility and moving it to Aurangabad and freeing up the space in Hyderabad for the increased machining capacity is all part of this. After this we'll be taking a pause on CAPEX.

Balasubramanian: Export side which are the countries contributes the higher portion of revenue like which are the segments we are getting more orders?

Akshay S. Pitti: North and South America are the two leading regions for us in terms of geographies. They would contribute more than 75%-80% of total exports. The remaining 20% goes to Central Asia, countries like Kazakhstan, Egypt, South Africa among others.

Balasubramanian: On the debt side if you could try like aiming further debt rise are expected or are you planning for any QIP?

Akshay S. Pitti: I can't comment on that right now. On the QIP, I can't comment. On the debt side we don't see that the net debt should rise significantly despite the ongoing CAPEX. The current year's cash generations and the CAPEX should more or less take care of each other. So, you should see only a modest rise in net debt at the end of this CAPEX cycle. After that we see it going down significantly over the next 2 years.

Balasubramanian: We have order book of around Rs. 823 crore. How much is executable in short term and how much percentage into long term? Right now, we are expanding the capacity like whether we can get an order of about Rs. 1,000-1,500 crore in that range once the capacity comes into the place.

Akshay S. Pitti: Firstly, out of the total order book about Rs. 200 crore is executable beyond 1 year. The remaining is executable within the next 12 months. In terms of order book going forward once the capacity is installed, in our industry the orders are released on a shorter cycle. They give you forecast for business which is longer term as the price has to change every quarter depending on the steel prices. So, nobody actually releases POs beyond two quarters typically.

Balasubramanian: So, the order cycle would be of 2 to 3 months in that range execution.

Akshay S. Pitti: Order books are typically not more than 6 months. So, if you have to take longer lead time orders such as power generation or railways or exports or wind turbines, where you have longer term orders with the price fixed, there the order cycle will be probably 6 to 9 months, in a good case about a year. All other segments of the business since the price variation clause (PVC) is going to happen very frequently on a quarterly basis like I had mentioned the orders are released only once every quarter as nobody would want to change the PO prices upwards or downwards. What I was trying to get to after explaining this is that even for the expanded capacity, we are doing it on basis of forecasted order

LOI or discussion with the customer on their requirements over the next 2 years. So, a bulk of that expanded capacity is going to come in a sense tied up with the business.

Balasubramanian: What will be the top five client's revenue mix in this year?

Akshay S. Pitti: Top five clients would account for about 60% of revenue.

Balasubramanian: Which clients are contributing more? Siemens also coming up with new orders 9000 HP, so are we getting any order from them?

Akshay S. Pitti: The Siemens order is still in design and development stage. As it progresses and we are quite confident that we should be getting that order. Right now, they are still in design and development phase.

Balasubramanian: Last question. Some of the players are coming up with traction motor capacity. How do you see the competition right now in the railways side?

Akshay S. Pitti: We are very happy that everyone's coming up with traction motor capacity. They are all going to be potential customers for us. So, if you talk of Titagarh Wagons or if we talk of Medha or Alstom, SAINI all of those players we are already in discussions to supply our products to them.

Moderator: We'll move to the next question. That is from Naysar Parikh from Native Capital.

Naysar Parikh: My question is for the new CAPEX. Can you just talk about, one what is the revenue potential from that plant and the EBITDA per ton in that plant also going to be similar to what we have or is there a potential where we can do more value as the EBITDA per ton could be higher?

Akshay S. Pitti: This is a brownfield expansion, so the plant and the locations will remain the same. As far as, see the kind of facilities we are putting up, they are highly automated facilities which we are planning to put up right now. So, your overhead cost and direct labor cost should be significantly lower than the current cost per ton. In terms of expected revenue, the way I would like to phrase it is that if you take it on a constant steel price basis, as Q4 constant steel price, this at a potential for about Rs.1800 crore of topline.

Naysar Parikh: Got it. And sorry I missed that, when can you start this plant?

Akshay S. Pitti: The commercial production should start in Q4.

Naysar Parikh: And my next question was on the order book. The order book was around Rs. 1100 crore end of last year. I think this year we are around Rs. 800 crore. So, one, what do you think is causing that decline? And secondly, given we are projecting growth hereon, how do we kind of ramp up on that order book?

Akshay S. Pitti: If you take the order book, the order cycle in our industry, barring few end user segments such as exports, large power generation and windmills, typically the order cycle is for a three-month basis because we have a quarterly price variation clause with our customer and once the POS stays you really can't change the pricing. So, the firm orders that we have in hand are typically for three months for different segments. For the exports and the other segments which I had mentioned, you have got six to nine months of orders, in a good case, maybe one year order. Apart from that, you have the long-term order book, which was very unusual in our business as a practice which we had received from Wabtech for their supplies to Indian Railways. So, the long-term order book is getting depleted as the contract runs down. So that is one of the reasons for the overall order book to come down. And the second is because we have to reinstate the volumes on the new pricing of all the orders that we have. So as the steel prices have declined significantly in the last one year, so has the order book been re-stated.

Naysar Parikh: Can you give a sense of in volume terms, what would be the order book last year and this year, roughly?

Akshay S. Pitti: At the beginning of last year ballpark, the order book would have been, I don't have the figure in front of me, but would have been in the vicinity of about 28,000-29,000 tons. The current order book is in the vicinity about 32,000 tons, approximately.

Naysar Parikh: Got it. And this is after the depletion of the railway order book, right?

Akshay S. Pitti: Yes.

Naysar Parikh: So, railway order last year would be roughly how much?

Akshay S. Pitti: That would have been around Rs. 275 crore, which is about Rs. 200 crore right now.

Naysar Parikh: Understood. And just in terms of our order book now and the next year, how do we see the mix between exports and domestic? And are you seeing any impact or any slowdown in your exports order book?

Akshay S. Pitti: Actually, no, in fact, quite the contrary. The exports order book is booming. We've never seen this kind of buoyancy in our exports in the recent past. Probably in the last ten years. The majority of our exports go towards North and South American railways as well as mining. So, both of those segments in those regions are undergoing transformation, modernization and upgradation. So, for the next few years, we see quite strong order flows from our export lines.

Naysar Parikh: Sir, you said your exports was mainly into what?

Akshay S. Pitti: Mainly for railways. North and South American railways predominantly freight rail. So, the entire segment over there is undergoing modernization and upgradation. So, for the next few years, we have a very strong visibility of growth from our client.

Naysar Parikh: And would the mix for exports and domestic be similar to this year, or is that changing?

Akshay S. Pitti: I think for the year FY24, the mix between exports and domestic will remain constant. Earlier we had expected that exports would shrink as a percentage because domestic would outgrow exports, but today I think exports is kind of keeping up with domestic.

Naysar Parikh: Got it. And the margins are broadly similar between the two, between exports Vs domestic

Akshay S. Pitti: The margins are similar because the margins are based on the type of product and the level of value add that you supply. But in the exports order content, the value add is very, very high and the products are more machined, or there are more machine components in the exports side, therefore, exports contributes disproportionately to the profitability.

Naysar Parikh: Got it. And just a last question, in terms of the sectors on the domestic side, which sectors are increased? Are you seeing more traction going forward? And especially on something on the renewable energy side. Solar, wind, etc., are you seeing more traction there? Do we have more clients there? Is that something that is our focus area?

Akshay S. Pitti: So, power generation, including renewables as well as traction motors, railway components, those are the two segments that are growing exponentially when compared to the other businesses.

Moderator: The next question is from the line of Kaushal Kedia from Wallfort PMS.

Kaushal Kedia: Hi, I'm sorry I joined a little late. Akshay, I just want one clarification. You said Rs. 1800 crore of topline can be achieved just from the new plant or the full capacity?

Akshay S. Pitti: Full capacity.

Kaushal Kedia: Full capacity you can do Rs. 1800 crore. And this is 80% or this is 100%.

Akshay S. Pitti: 80%.

Kaushal Kedia: Because it is difficult for us to go to above 90%, right? And in our industry, I am just understanding, we can't go above 90%.

Akshay S. Pitti: See, you can do for a short burst if push comes through sharp. But if you continue doing that, if you go beyond 80%, then you are kind of degrading the machine life because you're not providing the requisite maintenance to it.

Kaushal Kedia: Okay.

Akshay S. Pitti: We do it in the crunch when we don't have capacity and the orders have to be executed. But in a normal circumstance, we would not ever like to do that.

Kaushal Kedia: So, Akshay just broadly, I wanted to understand on the industry capital goods is on a high growth trajectory for the next few years because the CAPEX announced by the government. So how do you think we can take benefit of that, and we can take to consider the next level, say like a Rs. 2500-3000 crore kind of topline. So, when do you think that is possible? If I were just to ask you to take a guess with the factors that are in control right now or are visible right now?

Akshay S. Pitti: See, more than the top line, we would like to think of it in terms of machine hours sold and tonnage sold, because topline can be quite misleading due to the steel pricings. So right now, if you see we are expanding our capacity by about 72,000 tons, 80% of which is about 58,000 tons of utilizable capacity. Based on the order visibility that we have for FY25 or maybe by FY26, definitely that should be completely sold out. In terms of machining, we are quite more confident there. We are expanding to 6.5 lakh machine hours. We see that that capacity should be fully utilized by the middle of FY25 itself. So, we should be looking at a higher growth trajectory in the machine component business and also that's far more profitable. So, that is a segment that you would like to grow more than the other segment.

Moderator: We will move to the next question that is from the line of Arafat Saiyed from InCred.

Arafat Saiyed: My question is on Vande Bharat trains. So how that order book is picking up?

Akshay S. Pitti: So, Vande Bharat is picking up quite well. We are supplying the laminations to the Medha Servo Drives, which is the one who's currently supplying the Vande Bharat train sets. We are also in the final stages of approvals to supply various machine components for the same. Apart from Medha, the orders have gone to multiple more players now. I think totally about six, seven of them now. And we are engaged with almost every one of them for supply of components. They are still in their proto and development stage. The commercial supply is only coming from Medha Servo as of now to Indian Railways.

Arafat Saiyed: So, what is the size of order that you'll be supplying to them?

Akshay S. Pitti: Correct me if I'm wrong. About 32 motors are required in one Vande Bharat train set as it's about 64 coaches, and half of them are powered. So about 32 motors would be required. Each motor has about half a ton of lamination. So, per train set works out to about 16 tons of lamination.

Apart from that, it also has a whole variety of machine components, both for the bogies as well as the undercarriage parts. There we are right now getting ourselves approved not only with Medha, but with ICF and Indian Railways as well. So once those parts are approved and come into commercial production, we should see significant growth from the machine components business side.

Arafat Saiyed: So, what is your scope of work in the entire Vande Bharat ecosystem?

Akshay S. Pitti: We make the laminations for the motors, which I told you, which works out about 16 to 18 tons per train set, approximately. And then there's a whole bunch of machines casting fabricated parts where we are now getting approved. So, we'll start supplying those. The point is that whether Medha makes it or anyone else makes it, the machine components are required by all. And I believe that's a uniform ICF design which goes for all vendors together. It's just the electrical system it changes depending on the vendor. With the other vendors other than Medha, we are also in the process of developing their parts. They are in a proto stage; some are in development stage. So once that starts and they start supplying, our business will further increase.

Arafat Saiyed: Next on windmill business, what is scope in the entire windmill business for you?

Akshay S. Pitti: So, in the windmill business, we make the generator part. So, the rotor and the stator for the generator is what we manufacture. In the rotor, we also do the shaft of the rotor, which is fixed into the rotor and supply to the end customer. We typically do up to 3.2 megawatts size turbines as of now for our customers, which is Siemens Gamesa. As they progress to the next range, we will also graduate with them. For us, the product does not change much. For them, it changes considerably because the tower and the fan and the blades they will go a dynamic shift. Our product does not change as much as you go up in size. And apart from the generator related components, we also do some machine components which are called pedestals, which kind of keep the fan rotor and the generator rotor in line aligned properly. So, we make those machine components as well.

Arafat Saiyed: And lastly, on your Hydro Pump business so any orders lined up there?

Akshay S. Pitti: Pumped hydro, you mean?

Arafat Saiyed: Yes.

Akshay S. Pitti: So, in the Pumped Hydro, there are two projects going on in the country. One is with Greenko and one is with JSW, I believe. Our end customer is Andritz, they are supplying what they call as pump and generator sets. They are like a motor and a generator. It's reversible motor, to them for their pumped hydro project.

Arafat Saiyed: Lastly, basically, if we want to understand any product you are supplying for EV.

Akshay S. Pitti: EV related products, both for two wheelers, four wheelers and three wheelers, some of them are in commercial supply with a couple of our customers. The rest are in the development phase. To keep that development phase going, we are also engaging with them to focus on the legacy combustion engine related lamination so that our relationship gets stronger with our end customers.

Arafat Saiyed: So basically, what do you think about this business? How much growth do you expect in this EV business? Can it multiply by at least, let's say 5x in the next couple of 2-3 years? Because the base is low, right?

Akshay S. Pitti: The base is so low that it should be far more than 5x. I mean, today hardly any of the customers are making their motors in India. Most of it is import. As they start localizing it, the base effect would be what? I think in the last full year, we have done about 6-7 crores of total revenue for automotive of which electric vehicle would be probably about 1 crore or 2 crores. So, from there it will be far more than 5x growth. One order conversion would contribute at least 25-30 crores of revenue. Two would do like double of that. So, the base is so low that is maybe like 28-30X.

Arafat Saiyed: So, you mean this business can do at least, let's say Rs. 20, 30, 40 crore business in next 5 years?

Akshay S. Pitti: Per year, yes.

Moderator: Our next question comes from Sanjeev Zarbade with Dreamladder Investment Advisory.

Sanjeev Zarbade: It was regarding our trend in borrowings. So, every year for the last five, six years, the debt has continued to go up. But if you compare it with other capital goods companies, most of them are debt free. So, how should we look at your company in this sector? How will the trend for the debt move in the coming 4-5 years?

Akshay S. Pitti: In the last 1.5 years, we have considerably reduced our net debt, I think, from its peak of Rs. 335 crore, we are down to about 225 crores. For the next year, I think it should remain flattish as we are in the middle of our CAPEX cycle. After that, we should see it going down significantly.

Moderator: Our next question comes from the line of Yashika Pancholi with Sunidhi Securities.

Yashika Pancholi: I have three questions. I may have missed out something because I dropped out. Sir, in three major points, if you could sum up the big opportunities in the coming two to three years for Pitti Engineering? And just three of them, the three big ones.

Akshay S. Pitti: First would be the machine components business. Now, the machine components business would touch probably most of our end user segments in one way or the other. In machine components, you have fabricated parts, you have casted parts, which are machines, the shafts that we have machining for the motors, so, whether the business is related to motors or not, machine components, we can still serve a customer where there's no motor requirement. So, the vertical that we are creating on machine components is something which is very exciting. The second one would be the growth and modernization of railways, not just in India, but in North America. I think that's a very exciting opportunity with Vande Bharat trains, with some modernization of great locomotives. So that should keep giving us good orders for the next five to ten years.

Yashika Pancholi: If you can quantify it. Approximately, if you could quantify the railway opportunity.

Akshay S. Pitti: Railway opportunity is quite open ended, if you see, in the machine components space, which is why we are so excited and I put that as number one, is that in a motor there's a finite amount of lamination that you require, and we can only serve that requirement. At best, in terms of adjacencies, we can touch the castings or shafts or forgings which are machined and go into the motor. In machine components, the entire field is open. In railways, I don't have the data offhand, but I'm pretty sure it must in thousands of crores, tens of thousands of crores the requirement of machine components alone in just railways. So, it’s quite difficult to just put a number there.

Yashika Pancholi: That much is enough. And yes, sir, please go on.

Akshay S. Pitti: And then third, I would say the overall CAPEX cycle as a last one, because that is going to keep everything boiled.

Yashika Pancholi: So, the next question, if we were to just do the competition analysis of the entire sector that companies like us, I understand that there's a big unorganized market size, but within the organized, if we could give a little bit of colour as to where we stand. Like, what percentage would we approximately be within the organized market of laminations, electrical laminations?

Akshay S. Pitti: Unfortunately, there is no consolidated data of the size of the industry. EMA, which is the parent body for motors, they do collect certain data from their reporting members, as they call it. But there are so many motor manufacturers and large ones at that which do not report the data. And then any other thing that goes into, say, renewable energy, power generation, mining, oil and gas, all of those kinds of things or automotive, does not even come part of the EMA data. So, the only way to kind of measure the industry size is through the consumption of electrical steel. That also has its own follies because you do make motors, the inefficient ones and the unorganized segment, they make it from CRCL. So, it can only be derived from the consumption of Electrical steel. So, if I do that working, about 700,000 or 750,000 tons was the consumption of electrical steel in India last year, including imports. We consumed about 60,000 tons of steel. So, from that, empirically, we can say that about 8% is our market share in the organized segment.

Yashika Pancholi: So, one last question. There are these new research articles that state that nickel iron alloys are highly innovative. I mean, I'm just reading it out, highly innovative and intelligent solution vis-à-vis electrical steel and are ideal substitutes of CRNO steel lamination. So, I wanted to understand what your view is and what is the plan going forward?

Akshay S. Pitti: For us, it makes no difference. We punch CRNO, we punch CRCO, or we punch the nickel alloy, it actually doesn't make difference to us. It's the motor manufacturer that needs to decide what steel grade they want to use and accordingly change the configuration of their motor. So, if you use even in CRNO, if I could just give you all an illustration, there are probably 50 different grades of CRNO that we use at any given point of time. If you change the grade, the copper content may change, or the aluminum content in the motor will change, the size may increase or decrease, and the efficiency may go up. So, there are a lot of those electrical engineering related queries and thoughts that the motor manufacturer should take into the design consideration and then tell us what they want.

Yashika Pancholi: So, wouldn't make a difference to us, even if they are demanding nickel…all right.

Akshay S. Pitti: See at max, the tooling will change, for which they'll have to compensate us, as most of the tooling is customer owned.

Moderator: Our next question comes from Rabindranath Nayak with Sunidhi Securities.

Rabindranath Nayak: Recently, Siemens has actually sold its low voltage motor business to its own global group entity. So, whether it will have some impact on the offtake from Siemens side in the short term or it is not working.

Akshay S. Pitti: See, it doesn't make a difference because earlier, if you go way back in history, large drive was part of Siemens India. They hived it off and they separated it as a company. Now they have hived off the motors business to Large Drive. For us, operationally it makes no difference.

Rabindranath Nayak: Can you please give me the average CRNO steel price for FY 23 in the whole year?

Akshay S. Pitti: For the full year on an average basis, for one grade, I can give you, like I said, there are more than 20-30 different grades. If you take the cheapest grade for the full year, the average was about Rs. 98,000 per ***ton.***

Rabindranath Nayak: For the costlier grade?

Akshay S. Pitti: For the costlier grade, it depends. The costliest grade can be as high as Rs. 2.5 lakh a ton.

Moderator: Our next question comes from the line of Pulkit Singhal with Dalmus Capital Management.

Pulkit Singhal: Thank you for the opportunity and congrats on a great set of annual numbers. I think now the second consecutive year of 19%-20% ROEs and ROCEs, which is a commendable job given the evolution of the company. The first question is on this whole exports opportunity, this railway modernization part that you talked about in North and South America, can you help us understand the underlying drivers? Because I know there's a certain CAPEX cycle uptick and push happening in the US. So, do you see this to be driven more by that supported by government and that major manufacturing push that they're happening? And what could be the size in terms of tonnage, like for their requirements annually? And what is the kind of market share that we have had and whether that's shifting towards the up or not. Just trying to get that sense of the opportunity?

Akshay S. Pitti: If you take the North American business, it is primarily driven by the infrastructure push by the government there, the capital spending that they are doing and incentivizing them to clean up the freight rail system.

So, we are talking of hybrid trains now because in US, electrification of the railways is not really possible given the distances and the length of track. So, they are moving to hybrid solutions, hydrogen-based locomotives. So, all of those innovations are taking place there. At the same time, they have to modernize their fleet in terms of emissions as well as efficiencies. So, there are two overlaying cycles going concurrently which are going to continue driving growth over the next 3 to 5 years.

Pulkit Singhal: And what is the size of, what is that requirement annually that they have and where do they source from and how much is our share within that facility?

Akshay S. Pitti: So out of the North American rail business as I understand it Wabtec and EMD Electro-Motive Diesel, Caterpillar companies, they are the two dominant players in the locomotive space there. EMD, I think has about a 30%-35% market share and Wabtec has about a 65%-70% market share. We supply only to Wabtec. We are not working with EMD as of now and in Wabtec I would say we have got an 80%-85% market share of the products that we supply. So yes, in terms of the overall market that there is from what I understand is about 20,000 to 22,000 locomotives installed based in US which over the next 10 years will need to be entirely overhauled or upgraded.

Pulkit Singhal: And that pace was much lower in the last 5-7 years, right?

Akshay S. Pitti: Yes, the people were idling the locomotives. They're not really using it and so now they are going to start using it as well.

Pulkit Singhal: And in this EMD we were not participating because we are allying with Wabtec. Is that something restricting you from addressing that company?

Akshay S. Pitti: EMD currently sources most of the products within North America and most of the products they do the assemblies in house. Wabtec has a more agile and distributed manufacturing base. So, they have manufacturing setups in Mexico, India, and couple of places in the US which complement each other so they can buy more value-added parts from far away and make a good business case out of it. EMD, I don't believe is as agile or as spread out as Wabtec.

Pulkit Singhal: For Wabtec also is it possible for us to get into more I mean more than your current set of products that you're supplying? I'm just trying to see whether this whole China Plus One angle is coming into play at some place whether it be this North American opportunity or somewhere else? Are you seeing that play out in some manner?

Akshay S. Pitti: For the machine components with Wabtec, we are growing significantly. In the last 2 years we've already grown more than 25%-30% per year on machine components with them and we see that continuing in the future and that is again in my opinion driven by China Plus One. They have not said it in as many words but most of the current vendors were based out of China for those products.

Pulkit Singhal: And your capacity expansion plans while there's a current timeline. In case there is scale up because these things are relatively unpredictable you can get delayed or even faster. In case you have faster orders are you able to kind of get prepone your plans as well or they are pretty much set timelines?

Akshay S. Pitti: We can prepone it by a couple of months but looking at the current annual business plan we don't see the need to do it. So, we want to kind of conserve our cash as long as possible rather than expending our cash flow.

Pulkit Singhal: Lastly anything on the consolidation of opportunity that you think in India from the space, laminations space, are you thinking about that or any plans there yet?

Akshay S. Pitti: So, in my opinion only long term, the industry which is currently very fragmented as you can see, we are just 8% of the market and the next manufacturer of laminations would be probably half our size or even less than that. So, the industry is right for consolidation. It's just that the owners of those businesses must want consolidation. We are all for it if we get an opportunity.

Moderator: We move on to our next question which is from the line of Atul Agarwal, an individual investor.

Atul Agarwal: My question is that do you have a vision for next 10 years or next 20 years? Because I believe the electrical laminations and electrical motors seem to have a very great future even if it is at a drawing board stage?

Akshay S. Pitti: In terms of our vision or aspiration obviously all of us have that. You would like to emulate what the bigger manufacturers in Europe and US have done. If you see in those regions in US there's only one player in e-STEEL and in Europe there are two or three giants such as Eurotranciatura or Tempel Steel. So yes, you would like to consolidate the industry grow to maybe a couple of 100-1,000 tons worth of e-STEEL on the laminations side of the business. On the machine components side of the business as I mentioned that is the one place where you are most excited so 6,50,000 machine hours is a stepping stone. You should look at doubling that over the next 4-5 years. Apart from that the motor that is one place where we are very excited. We see opportunity going forward. As the business grows in India, our end customers would want to outsource the motor manufacturing as they have done in Europe or in China. So, we see that we should become the integrated player for all motor related business whether it is component, its lamination, its shafts or even ready to use motors with the customers' insignia stand on the product. So that is kind of a vision or aspiration that we have in this particular business. To supplement this, we would think that apart from the sheet metal and the machining that we have we should have a foundry, we should have a port shop, so we can provide a vertically integrated best cost solution to our customers, that's on the motor side. And then on the railways side, if you see we are already quite a bit of the journey there where from just laminations now I would say that machine components by next year should be more than the lamination related business in railways. If you take that as the business case as to how we have developed the railway side of the business you would like to replicate that on the other end user segment.

Atul Agarwal: And Vande Bharat will do lot of good and publicity to this company. My next question is that we are already a Rs.1,000 crore company in terms of sales. And then roughly what do you expect our sales figure will be 10 years from now?

Akshay S. Pitti: Sales will be from 10 years from now. See, again on constant revenue terms if the aspirational target like I have said a couple of 100 thousand even if you take 1,50,000 metric tons and it should top maybe Rs. 7,000-8,000 crore, a billion dollars plus. It should. I mean if we don't achieve that then we have not done our job properly, right?

Atul Agarwal: I hope that you will be able to do better than this.

Akshay S. Pitti: With your wishes hopefully, we also hope to do better than that.

Moderator: Our next question comes from Piyush Jain with Acquaint Bee.

Piyush Jain: One clarification. We were expecting an incentive of 30 crores, if I'm not wrong for this year.

Akshay S. Pitti: Yes.

Piyush Jain: Has any expectation changed in this regard?

Akshay S. Pitti: No, it's not changed. It's just that sanction letter from the state government has not been received. So as prudent accounting practice we can only account it once the sanction letter is received by us. So, it should go into Quarter 1 of the current fiscal.

Piyush Jain: But I also read an announcement from you recently on 20th May that said that the industry incentive for 7 years with an annual cap of Rs. 14.8 crore in terms of scale?

Akshay S. Pitti: So that's the first part of the overall Maharashtra factories incentive package. So firstly, if you have time, I'll just break it up into two parts. There's Phase I and there's Phase II. Phase I was a total of 180 crore. I'm just giving you round figures as I don't have the exact number in front of me which we are eligible to receive over 7 years. The applicability of it comes from the date you put your equipment into use. The first tranche was approved for Rs. 104 crore over 7 years. The remaining Rs. 80 crore was approved over the next 4 years. So that's how we get to Rs. 34 crore of which 90% is distributed every year. That's how we come back down to about Rs. 30 crore. This is Phase I. The first year of Rs. 34 crors of 90% of which is distributed in per year started last financial year. We are supposed to account it in last financial year due to a delay at state government to release the sanction letter for the second part. It will now happen in Quarter 1 of current fiscal. Apart from this the ongoing CAPEX is also eligible for incentives which will start in 3 years' time.

Moderator: As there are no further questions, ladies and gentlemen we have reached the end of the question-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 9920-20-9623. Thank you for joining us and have a wonderful day.