16th November 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 13th November 2023

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With reference to our letter dated 31st October 2023, intimating about the conference call with investors to be held on 13th November 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: 2023.11.16 13:50:03 +05'30'

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"Pitti Engineering Limited
Q2 & H1 FY2024 Earnings Conference Call"

November 13, 2023

MANAGEMENT:	**MR. AKSHAY S. PITTI – VICE CHAIRMAN AND MANAGING DIRECTOR** **MR. VARUN AGARWAL, PRESIDENT** **MR. RISHAB GUPTA, PRESIDENT** **MR. M PAVAN KUMAR, CFO**

Moderator: Ladies and gentlemen, good day and welcome to the Pitti Engineering's Q2 & H1 FY2024 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 call will be recorded. Joining us today on this call are Mr. Akshay S. Pitti – Vice-Chairman and Managing Director, the senior management team of the Company Presidents Mr. Varun Agarwal and Mr. Rishab Gupta. Before we begin I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations please refer to the earnings presentation. I would now like to hand the call over to Mr. Akshay Pitti. Over to you Sir!

Akshay S Pitti: Thank you. Good evening and welcome everyone. We hope you have had a chance to review the presentation of our results, a copy of which is also available on our website. I will briefly take you through the highlights of the operational and financial performance of the company and then open the floor for Q&A session. The sales volume for the quarter increased to 10340 metric tonne compared to 8809 tonnes for Q2 FY2023, up by 17.38% on a Y-o-Y basis. Revenue from operations for the quarter stood at 290 Crores lower by 4.56% the drop in revenues on account of reduction in material prices which were passed on to our clients. We have achieved an exceptional milestone by recording the highest ever EBITDA of 42.56 Crores for a quarter a growth of 16.44% on a Y-o-Y basis. During the quarter the Maharashtra state government released an incentive of 10.9 Crores pertaining to FY2022-2023 which is recognized in the quarter. Considering this the net profit for the quarter stood at 22.55 Crores. Capacity utilization of lamination during the quarter was 72.27%, machining utilization stood at 91%. As of September 30, 2023 the order book stood at 716 Crores. 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. Our first question is from the line of Prathamesh Dahake from Motilal Oswal. Please go ahead.

Prathamesh Dahake: Hello Akshay Sir, thank you for giving me the opportunity. So wanted to understand a bit on the incentives so you mentioned that the 10 Crores from FY2023 were realized in this quarter right?

Akshay S Pitti: Yes.

Prathamesh Dahake: How do we account it as revenue for operations or is it part of other income?

Akshay S Pitti: It is part of other income.

Prathamesh Dahake: Understood Sir and going forward in FY2024 how much incentive are we expecting and will it be an annual thing or it will be realized on a contract basis?

Akshay S Pitti: For the current year itself there is another 30 Crores that is expected to be accounted in Q4 and for FY2024 we will be accounting about 34 Crores and it will be on annual basis. We get two tranches, so we have accounted for the first tranche right now, the second tranche will be done in Q4.

Prathamesh Dahake:So it will be 34 Crores on a consolidated basis and it will be a part of other income but a part of revenue?

Akshay S Pitti: Yes.

Prathamesh Dahake:Understood Sir.

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

Sanjeev Zarbade: Good afternoon Sir. My question is your capacity has increased from 50200 to 56000 MT this quarter whether the capacity is going to increase gradually like this or on Q-o-Q basis and what will be the volume targets for Q3 and Q4?

Akshay S Pitti: The volume target for Q3 is more or less in line with Q2 it will be about 10,500 tonnes and for Q4 it is about 11,000 tonnes. In terms of capacity I think the next bout of capacity increase would happen in March, 2024 wherein we will go to 72000 MT from here.

Sanjeev Zarbade: Volume target for Q4 or is it too early for it.

Akshay S Pitti: 11,000 MT for Q4 as I mentioned.

Sanjeev Zarbade: Sir regarding the overseas business how is Europe business doing and what can we expect in the next three years timeframe?

Akshay S Pitti: European business is not a big part of our overall export market. We predominantly export to the America, South and North America both. In Europe, in the last few quarters we made certain breakthroughs and for FY2024-2025 we see great potential, maybe about Rs. 100 Crores worth of topline coming from that market driven primarily from the wind turbine businesses and the marine business.

Sanjeev Zarbade: That is it from my side for now. If there are more questions I will come back.

Moderator: Thank you. Our next question is from the line of Bhavani Kumawat from PhilipCapital. Please go ahead.

Bhavani Kumawat: Thank you for the opportunity. Thank you Sir. So just wanted to know what is the current raw material price, can you give me the raw material price trend for the last quarter vis-à-vis the previous year last quarter?

Akshay S Pitti: For the current quarter the raw material will be priced around Rs. 90,000 per MT for the cheapest source of RM that we use. The similar grade for the year ago period would be in the vicinity of Rs. 1,15,000 per MT

Bhavani Kumawat: How much price correction will you foresee in your end or are they currently stable?

Akshay S Pitti: For now, we see that the prices will be stable. If you see last quarter to this quarter the prices have hardly moved and the expectation over the next two quarters is that unless there are some major events globally, the prices should remain stable.

Bhavani Kumawat: Most of your raw material prices are now being passed on to your customers right?

Akshay S Pitti: All the contracts are with Price Variable Clause on a quarterly basis.

Bhavani Kumawat: So this quarter is more or less stable so no need to take any price reduction pass on to the customer right?

Akshay S Pitti: No and even if that is on automatic process with the customer there is no impact to our bottomline.

Bhavani Kumawat: So just wanted to know how big is the railway opportunity for you in terms of volumes if you can just give me a segregation somewhere around like how much of metric tonne of your material goes into a motor use in railway as well as in the EV and how big the opportunity for you so that will be helpful Sir?

Akshay S Pitti: From the railway side the business is not just related to lamination, but the majority of the machine component business goes to railways. So if you take in terms of the tonnage of lamination sold, railway should account for the whole year somewhere around 8000 metric tonnes. In terms of machine components output it accounts for more than 70% of the overall business currently. If you want to put a rupee value to this currently we had about Rs. 400 to Rs. 500 Crores annualized revenue from railways and metro market. This has the potential to further increase by about Rs. 200 to Rs. 250 Crores over the next few years.

Bhavani Kumawat: Understood. One more question can you just give the guidance for capex for this year and the revenue guidance?

Akshay S Pitti: The capex for this year would be in addition to what we have already spent up to September 30, 2023 about 120 Crores.

Bhavani Kumawat: The revenue guidance Sir?

Akshay S Pitti: Revenue for the year I think you can extrapolate Q2 for the remaining two quarters because we are expecting price to be flattish. We should end up somewhere around 1100 Crores of topline.

Bhavani Kumawat: Understood Sir. Thank you so much for this. Thank you.

Moderator: Thank you. Our next question is a follow-up from Prathamesh Dahake from Motilal Oswal. Please go ahead.

Prathamesh Dahake:Hello Akshay Sir. My question was once we are fully scaled up on the capacity of 72,000 tonnes how much utilization can we expect on a blended level, let us say currently we are at 71% so how much it would be in FY2025 and how would that capacity ramp up in the coming years?

Akshay S Pitti: See in terms of additional capacity we currently do not have any plans beyond 72,000. For FY2025 we have a sales target of 48,000 tonnes which works out to about 66% and then for FY2026 we have a target of 56,000 tonnes, which works out to about 80% and then maybe next year we will look at any further plans looking at how the market is progressing.

Prathamesh Dahake:Understood. I had a followup question on the incentive so Rs. 10 Crores is something, which we got from last year and Rs. 30 Crores are expected in the coming quarters so for FY2024 consolidated basis when does that money get credited into our account, the next year let us say March 2024 money comes in July or something like that?

Akshay S Pitti: So typically it takes about 6 to 8 months for the amount to credit once it sanctions.

Prathamesh Dahake: Understood. So in FY2024 we are expecting again 30 Crores on a consolidated basis?

Akshay S Pitti: Yes.

Prathamesh Dahake: Understood Sir. That is all from my side.

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

Pulkit Singhal: Thank you for the opportunity. First question was on the order book itself. We do not seem to be having much of an uptick in order book even if I adjust for raw material prices impact Q-on-Q you have a decline in the order book whereas you said the RM prices are flattish so can you talk about the demand environment?

Akshay S Pitti: So if you take the short term order book it is pretty much flattish and for the current quarter we are not expecting any increase in sales it is going to be something like Q2 and for Q4 it will be marginal increase of 500 tonnes. So the short term order book is in line with our targets on sale. The change what you are seeing is on the longer term order book as we keep depleting the 10 year contracts on the India loco business.

Pulkit Singhal: Right, but can you just broadly comment on how you are seeing the demand environment overall?

Akshay S Pitti: See demand right now is I would say stable I would not say it is very, very strong. The outlook with the elections upcoming remains cautious. So there are discussions of increased requirements, but nobody is committing to the order books till they see the outcome of election. However, on the North American and European side, the order book remains strong; we are seeing growth on our export business both in USA and European markets.

Pulkit Singhal: These are direct exports you are talking about?

Akshay S Pitti: Yes direct exports.

Pulkit Singhal: The margin differences between direct exports and your overall, so you are roughly around 14.5 to 15%, is it quite sizable or is it in the same range?

Akshay S Pitti: The same product it would be in similar range. It would not be a vastly different it all depends on the level of value add in each product.

Pulkit Singhal: In terms of your production target the 11000 was for Q3 or Q4?

Akshay S Pitti: Q4 so vis-à-vis the annual target of 42000 tonne we did about 10000 tonnes last quarter, about 10500 for the current, we plan something similar for next quarter and 11000 in Q4.

Pulkit Singhal: So these are basically getting a bit pushed out versus what you had guided earlier in the sense slightly, slightly lower and you are seeing a bit more of back ended uptake?

Akshay S Pitti: I think it was something like 10000, 10500, 10500 and 11000, 42000, so it is more or less in the same line. It is like a couple of hundred tonnes here and there.

Pulkit Singhal: Understood, we talked about the incentives. You said 34 Crores this year of which 10 you have already received is my understanding correct?

Akshay S Pitti: So the incentive is 34 Crores for a full year. In last year there was a delay in sanction because of the Maharashtra government realignment, in current year there is a backlog of 15 Crores that would make it 45 Crores for the current year. Due to the backlog from last year for next financial year will be 34 Crores and then it will remain stable. See it depends on when we get the sanction letter. We do not like to do this on accrual basis. So once we have the eligibility only then we account for it. Otherwise the cash flow and the accounting would get disconnected by a wide margin. This way the accounting and the cash flow remains within 6 to 8 months tracking.

Pulkit Singhal: Right and any update on the underlying subsidiary that you are trying to consolidate, what are the timelines, how are things progressing?

Akshay S Pitti: So we have got the approval from the stock exchanges and SEBI and we should be going ahead with the NCLT application and the expectation is that the merger should be completed by March 31st 2024.

Pulkit Singhal: I hope by then you would also disclose whatever has been the update in terms of their financial performance this year before it comes for shareholders approval?

Akshay S Pitti: Yes, I think as per the process it would be done.

Pulkit Singhal: Understood. Got it. Thank you and all the best.

Moderator: Thank you. Our next question is from the line of Gunmeen Kohli from Deven Choksey Finserv, PMS. Please go ahead.

Gunmeen Kohli: Thank you for the opportunity. So I had a question on the European business. So can you just throw some light on the competitive intensity over there and how are we looking to, ramp up like you mentioned about one close up business you can garner from there so where are these orders coming from and what is the whole landscape over there?

Akshay S Pitti: So the competitive landscape if I have to break it up into machine components and lamination, lamination has competitors based out of Europe as well as China. Machine components are basically competition from China. If you take the lamination business the European overheads and the raw material pricing is very, very high when compared to India and China. So they effectively are not competing on any orders. We are seeing a trend where more and more business is moving from the European manufacturers to Asian manufacturers. As far as the Chinese competition goes I think the supply chain strategy is very clear among these companies, they do not want to depend on one single geography for their supply and they want a diversification. In terms of pricing we are as competitive as China. If you talk of the machine components I think a similar story is playing out there. Even though India is slightly more expensive vis-à-vis China I think the reliance on the supply chain on China is not preferred anymore with the customers. Therefore we are seeing a massive derisking of the supply chain at their end.

Gunmeen Kohli: As far as Europe, like you mentioned from the marine and the renewable side, how do you see that business panning out?

Akshay S Pitti: If you take the end use we are seeing a lot of requirement coming in from green energy, pumped hydro, compact hydro, wind turbine, green hydrogen. So these are the key markets from where we are getting the business and in addition to that we are also seeing new business coming in for marine generators. With the regulation on reducing the nitrous oxides and sulfur dioxide in the marine engine they are kind of revamping those.

Gunmeen Kohli: Lastly on the EV front can you just touch upon the opportunity in the automotive space like currently how many customers you have in that business segment and two to three years down the line where do you see yourself as a key supplier to automotive?

Akshay S Pitti: In the EV space on the two wheeler side, we have about two customers right now and then three wheelers and buses combined and off highway vehicles the total clients are about seven. In terms of volume I think it is still a slow start as far as the components for the electric motor for the EV is concerned. There are still a lot of imports coming in from China. The unorganized market is doing pretty well on the EV side, I would say there are smaller shops which are kind of retrofitting these bikes and autos for electric vehicle, which is kind of picking up a little bit but eventually this will become streamlined and the major OEs will start getting into the manufacturing of motors over the next three to four years we see great potential in this market.

Gunmeen Kohli: Any number you would like to attach to it, like what would be it as part of your topline going ahead?

Akshay S Pitti: From my topline I would not like to attach a number. I can probably put it this way that the market is expected to be only for the electric vehicles close to about 1,00,000 tonnes going forward. So the opportunity is huge. How much of that we will be able to garner time will say. Firstly it has to come to India for manufacturing. Currently most of the motors are imported by the OEs.

Gunmeen Kohli: Alright. Thank you so much. That is it from my side.

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

Manan Shah: Hi thanks for the opportunity. My question is regarding the working capital cycle. So we have seen a sharp increase in the working capital cycle as well as the short term borrowing. So what is the primary reason for this increase?

Akshay S Pitti: If you take the working capital cycle on a year-on-year basis we are down we have about 76 working capital days. You would have seen the overall debt has gone up as we are realigning certain financial limits that we have. Net debt is still down vis-à-vis last year we had about 290 Crores of net debt vis-à-vis 330.

Manan Shah: Right and the 130 Crores of capex how are we looking to fund the thing?

Akshay S Pitti: So we already have the loans tied up for it.

Manan Shah: So this will be primarily through debt?

Akshay S Pitti: Yes.

Manan Shah: So what sort of peak debt are we looking at then including the working capital limit?

Akshay S Pitti: I think it would be below our target of 350-375 peak net debt.

Manan Shah: Understood and post merger what sort of expansion would that lead to in terms of our margins after the merger gets through?

Akshay S Pitti: I think the investment and justification is already part of the merger rationalized. I believe I am not allowed to address that directly till it is approved.

Manan Shah: Understood. Thanks I will come back in the queue.

Moderator: Thank you. Next question is from the line of Abhilasha D Satale from Quantum AMC. Please go ahead.

Abhilasha D Satale: So I just wanted to take a view on the margin profile. So you are seeing for the next two quarters the topline will be flat so how do we see our margins and as we increase our utilization next year how much room do we see for our margin improvement?

Akshay S Pitti: For the current half year we did about 42000 as EBITDA per tonne on a blended basis while the tonnage would remain flattish we will see an increased machine components our contribution as we go towards Q4. So by Q4 we should see a blended EBITDA about

43000 to 43500 so next year again the same trend will continue as the machining capacity increases it will get deployed ahead of the lamination capacity. So we see the EBITDA per tonne moving up to about 45000 for FY2025.

Abhilasha D Satale: The change is largely because of the product mix?

Akshay S Pitti: Yes as the machining contribution will increase that will also increase. In addition to that, by then the proposed merger would have been through and that will also contribute to the increased EBITDA margin.

Abhilasha D Satale: Sure. Thank you.

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

Sanjeev Zarbade: Sir thanks for taking my question again. My question was regarding the turnover of components in this quarter and what would be for overall year and what would be the EBITDA for the full year, if you could give some colour on that?

Akshay S Pitti: So if you see the overall machine components, just for the plain vanilla components we do about 100 Crores worth of revenue per year but there are lot of other components which go into the assembly of the lamination. So if you take and allow those machining related revenue if I were to call it that would be about 200 odd Crores, over the next two to three years we see this more than doubling as we increase our machine capacity.

Sanjeev Zarbade: Any update on potential acquisition?

Akshay S Pitti: We are exploring various options and when we have something we will come out with the announcement.

Sanjeev Zarbade: My final question is regarding any view on private capex in India and across the world, basically more of a macro question for the general industry?

Akshay S Pitti: So from what we understand from our clientele since they are front facing we are seeing a healthy amount of private capex. It is not near the levels which were expected it is again obviously overspent by the government in the sense that government is far ahead of the private capex but that is to be expected.

Sanjeev Zarbade: Because the government capex spending in the first seven months have been very strong, probably the private capex has been lagging.

Akshay S Pitti: Compared to the government, yes, but if you compare on a standalone basis from last year, from what we are given to understand from our clients, there is a strong private capex demand as well.

Sanjeev Zarbade: Got it Sir. That is it from my side, Sir. Thank you.

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

Pulkit Singhal: Hi just a followup. You clearly had these MNC customers for the longest time and as they are looking to realign the supply chain and as there is this increasing Make in India opportunity at least on the railway side do you see opportunities to do any kind of joint ventures to be able to address certain bill of materials on railways which you otherwise cannot do now so as to expand the firm leveraging your relationship?

Akshay S Pitti: As of now Pulkit pretty much most of the things that we would like to be doing we are doing. There are certain components I would say on the interiors of the locomotive which we would like to target at least a year or two from now for which is required we look at JVs.

Pulkit Singhal: Right and you are being constrained primarily from a capital standpoint or a managerial bandwidth standpoint?

Akshay S Pitti: So right now we want to first execute what we have already taken on both. If you see our targets they are quite steep, so we do not want to get distracted on a new venture till we have everything sorted out at our end with the merger what is happening the opportunity on the machine components is something which we are very excited about. We want to first capture that opportunity and then move to the next part. See what is the meaty parts we already doing in terms of margin, the insights of the metro cabin or locomotive cabin those are not as meaty as the parts in the machine components they are similar, but they are lighter, they are smaller fabrications, light fabrications. We specialize in medium and heavy parts. We want to consolidate our position and then expand.

Pulkit Singhal: These 100 Crores that you mentioned for the European opportunity would that be a higher margin business?

Akshay S Pitti: That would be a combination of machine components and high level assembly, so on a standalone basis even if the product was sold in India that would be very high margin.

Pulkit Singhal: Right great. Thank you.

Moderator: Thank you. Our next question is from the line of Gunmeen Kohli from Deven Choksey Finserv, PMS. Please go ahead.

Gunmeen Kohli: Yes thanks for the followup. Apart from the railways, power and industrial what else would be the bigger contributors to our top end going ahead?

Akshay S Pitti: You said railways, power and industrial; so that pretty much covers everything within the sub sectors we have all our sectors. If you take a power we have data centers, we have DG sets, we have hydro and thermal projects, wind turbines, generators so that all comes in the power and if you talk of industrial then everything other than railways comes under industrial. If you actually split those three segments into further segments what we give you in the investor presentation those three broader segments which are split into sub segments.

Gunmeen Kohli: So I am more looking from a two year perspective, where do we see our expertise where we can go and target more industries, the new industries?

Akshay S Pitti: See within these sub segments, if you want to be more specific, renewable energy, mining, equipment and the automotive and appliances. These are segments where I see a good cause for increasing our market share. If you see our overall revenue mix today appliances and automotive they are decimal percentage in terms of revenue and there is good opportunity to further increase business there. However, that would be a lower margin kind of business when compared to our existing product mix.

Gunmeen Kohli: Alright, got it and just on your client side as we know you are the sole supplier for gen sets for Cummins in India, what is the kind of opportunity when you look at the worldwide business for Cummins can we go and become the sole supplier for them globally or what kind of opportunity would that open up?

Akshay S Pitti: We are not sole suppliers we are one of the major suppliers I would want to classify it that way and if you want to talk about global footprint I think the way going forward would be that the bigger generators would still continue manufacturing in Europe. There will be certain small generators which will be manufactured in Europe for which may be lamination sourcing can be done from India but right now we are seeing a trend wherein lot of business from India is being directly shipped to Europe, so which supply chain will prevail in the future we cannot predict right now.

Gunmeen Kohli: Alright, got it. Thank you.

Moderator: Thank you. Our next question is from the line of Vinay Nadkarni from Hathway Investments Private Limited. Please go ahead.

Vinay Nadkarni: Just wanted to check on the realization per tonne of from Q1 to Q2 while you have actually grown the blended volume by 3.8%, your realization per tonne has gone down by 3.5% and even the blended EBITDA per tonne has moved down from Rs. 42,607 to Rs. 41159 can you just throw some light on that?

Akshay S Pitti: The steel prices have gone down and as you know we have quarterly PVC with the client, so the revenue is a factor of the prevailing selling price to the customer. As far as the blended EBITDA per tonne is considered, those minor fluctuations will keep happening on account of product mix.

Vinay Nadkarni: When the steel prices go up you see the blended EBITDA per tonne increasing disproportionately?

Akshay S Pitti: Blended EBITDA per tonne will not increase or decrease because of the steel prices that is a factor of the product mix. The sales realization would increase or decrease on account of steel prices.

Vinay Nadkarni: Thank you. That is all from me.

Moderator: Thank you. Ladies and gentlemen that was the last question of our question and answer session. Thank you for joining the call. For any more info or for visiting the plant please be in touch with Rama Naidu from Intellect IR on 9920209623. On behalf of Pitti Engineering that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited to improve readability)