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

PITTI

27th February 2024

To, BSE Limited Floor 25, P J Towers, Dalal Street Mumbai – 400 001	To, National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Bandra (E), Mumbai – 400 051
Scrip Code: 513519	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 23rd February 2024

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With reference to our letter dated 20th February 2024, intimating about the conference call with investors to be held on 23rd February 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: 2024.02.27 13:00:31 +05'30'

Mary Monica Braganza
Company Secretary & Compliance Officer
FCS 5532

"Pitti Engineering Limited Q3 FY24 Earnings Conference Call"

February 23, 2024

Moderator: Ladies and gentlemen, good day and welcome to Pitti Engineering's Q3 FY24 Earnings Conference Call. As a reminder, all participants' 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 is Mr. Akshay S. Pitti – Vice Chairman & Managing Director.

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: A warm welcome to our Q3 Earnings Call. I will start by giving you an overview of our operational and financial performance before opening the floor for a Q&A session.

Revenue for Q3 FY24 was Rs. 296.92 crores, registering a year-over-year growth of 24.19%. Sales volume stood at 10,572 MT as compared to 9,150 MT in Q3FY23, an increase of 15.54%. Sales realization and EBITDA per tons for the quarter were Rs. 2,77,751 and Rs. 41,700 respectively. EBITDA for the quarter was Rs. 44.09 crores, registering a 13.58% growth on a Y-o-Y basis. PAT was Rs. 13.32 crores, up by 9.81%. I am pleased to note that both sales volume and EBITDA for the quarter were the highest ever recorded in the company's history.

For 9 months of FY24, total revenue was Rs. 890 crores, EBITDA was Rs. 129.07 crores, and PAT was Rs. 49.84 crores. During the year, we have accounted for Rs. 13.09 crores of incentive income from our

Aurangabad facility. We expect to further account Rs. 32.42 crores in Q4 FY24, subject to requisite approvals. Sales volume for 9 months was 30,870 MT, putting us well on track of achieving our annual target of 42,000 MT. Net debt as on 31st December, 2023 stood at Rs. 317.60 crores. So far in the financial year, we have spent about Rs. 85 crores towards capital expenditure. The remaining approved CAPEX will be spent by H1 FY25. With this, we are on track for the expansion of our Aurangabad facility.

As you are aware, the company has filed the scheme of amalgamation with Pitti Engineering and Pitti Castings and Pitti Rail with stock exchanges on 26th June 2023. We have received a no objection on the 26th October 2023. Currently, the scheme is pending approval from NCLT. We anticipate completing the merger in H1 FY25. We are seeing strong growth in order books and projections from our clients, driven primarily by Rail, wind energy, and power generation sectors. Further, we have significant new customer acquisitions in automotive, power generation, and railway segments. The order book as of 31st December 2023 was Rs. 898 crores. For FY25, we are targeting 50,000 MT as sales volume. With the expanded capacity in Aurangabad, increase in machine components business, further augmented by the merger of Pitti Castings, we expect significant improvement in the margin profile of the company in the coming years.

I now open the floor for a Q&A session.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Naysar Parikh with Native Capital. Please go ahead.

Naysar Parikh: I just want to understand from a steel prices perspective if tomorrow we were to see a sharp correction in steel prices or something like that, what kind of impacts do you foresee on margins, realization, etc.?

Akshay S. Pitti: On a gross margin basis, there will be no decline, as we have a price variation clause with the customer. If there is a sharp correction downward or an increase in steel price, on both sides, we are protected.

Naysar Parikh: So, you will be able to revise your prices, basically, right?

Akshay S. Pitti: Yes, we have already done that. If you see in the past 6 quarters, there is a continuous trend of decline in raw material pricing, and that has not affected our margins. And prior to that, when the steel prices were on an upward trend, it was similar. There was no impact on our margins.

Naysar Parikh: From a capacity perspective, can you talk about the expansion that we are doing and then how and when will that start kicking in? We are at 90% on the machining side. When will that kick in?

Akshay S. Pitti: The capacity augmentation will be completed fully by H1 2025. Right now, in terms of sheet metal, we have 56,000 MT capacity which will be enhanced to about 72,000 MT. And on the machine hours side, we have about 4,60,000 machine hour capacity which will increase to 6,15,000 machine hours.

Naysar Parikh: And you did give some brief highlights of the sectors that you are seeing demand. Can you elaborate a bit in terms of your order book or order inflow? What is the order inflow like and what is the order book and what is the growth year on year?

Akshay S. Pitti: Overall, if you see the consumer motors' or the industrial motors' side of the business, that is not growing as fast as the other segments. The growth is primarily driven by railways and renewable energy and power generation segments.

Naysar Parikh: What would be your order book or order intake growth? Besides the revenue, if we can look at some of those metrics, can you share those metrics?

Akshay S. Pitti: If you see the order book and you adjust it for the selling price for the quarter, we are seeing about 25% to 30% increase in the order book on an adjusted basis. For Q2 FY23, we had a closing order book of Rs. 716 crores. And for Q3, it is about Rs. 898 crores.

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

Prathamesh Dahake: Sir, my first question is regarding gross margins in this quarter. We can see that our contribution from exports has also increased by 5% year on year as well as the contribution of value-added products has also increased by 2% points. What is the reason our gross margin only increased by 1%? That is my first question. Second is regarding our overheads. Our employee expenses have increased in line with our year-on-year revenue growth. Any reason for the same? And our other expenses have also increased by let's say, 2% points. What is the reason behind the same?

Akshay S. Pitti: The gross margin and export correlation that you are trying to do does not work. As you know, the selling price or the value addition that we do for the product, whether it's in the domestic market or the export market, is the same. So, you will not see a margin improvement just because exports are more or exports are less. It's got to do with the product mix. And if you see the increase in 1% gross margin, I think that is fair keeping in line with the kind of product mix that we have had. In terms of overhead and employee cost, there are normal increments that are there. Plus, in addition to that, we are obviously going to start the staffing of our various departments ahead of the CAPEX. That would be the reason, probably, why you are seeing a marginal increase in employee cost and other expenses would be the same reason. If we talk about tracking perfectly as per your sales, obviously, all those expenses and other things have to happen prior to the CAPEX that we start doing.

Prathamesh Dahake: Sir, what are the products that currently we are exporting?

Akshay S. Pitti: We are exporting products for all the other segments that we cater to like the railway segment, the wind energy segment, the power generation segment; mainly the motor and generator components and some machine components.

Prathamesh Dahake: It is mostly loose lamination or something like that? Because, even if realization is not same for exports and domestic, still I am unable to understand if it would have been a better product, our GM should have improved, right?

Akshay S. Pitti: It's not a better product. It's the same product. If you take the customer, we supply to the same customer in India and in the US market. The profile of the product does not change. It is a similar product. It's just that the consumption point is in India or it's in the US. That's the only difference in our product.

Prathamesh Dahake: Aren't realizations better in exports on a like-to-like basis?

Akshay S. Pitti: No, there's no difference in the realization of exports. The packaging cost, the interest cost, or the freight cost related to export would be added. There is additional cost also when the export is there. Whatever increase in the realizations you see are the corresponding costs, which is why you are seeing the other expenses also increasing. That is where you would account for those additional packaging, freight, etc.

warehousing, all of those costs. The product that we make is the same for the Indian market and the export market. And the client also is the same. We have Westinghouse Air Brake Technologies Corporation, (Wabtec) as a client in India and the same client in the US.

Prathamesh Dahake: My one last question would be, you have mentioned that there would be significant margin improvement on account of merger of PCPL. Can you please explain to us how this thing would pan out?

Akshay S. Pitti: It's not only on account of PCPL. If you see, I mentioned due to the increased volume, firstly, we are going from 42,000 MT to 50,000 MT next year. So, obviously the economies of scale will kick in and your overhead cost on a per-tonne basis would be further distributed. In addition to that, the increase in machine components business is going to add value. And when you merge Pitti Castings, obviously the EBITDA that company is doing will get added to our EBITDA. And if you see the sales profile of that company, approximately 70% of its revenue is derived from procurement from Pitti Engineering. When we consolidate two companies' balance sheets, the common sale would be removed and the EBITDA margin would get added. That itself, if you see, would yield a significant margin improvement, all these three measures put together would contribute for EBIDTA expansion.

Moderator: The next question is from the line of Karan Kamdar from DRChoksey FinServ Private Limited. Please go ahead.

Karan Kamdar: What I wanted to understand is other expenses. Can you throw some color? I think you already explained it's due to the new CAPEX. If you could throw in a little more of color that when can we expect it to stabilize as a percent of revenue, that would be helpful.

Akshay S. Pitti: Other expenses will not typically be linked to percentage of revenue. It also has to do with, other expenses where we account for the packaging costs, the forwarding cost carried outward, depending on the location, like if you see the exports are slightly higher in the last quarter; therefore, the corresponding expenditure related to those would be higher. There won't be a linear transition from revenue to other expenses.

Karan Kamdar: Can you give a rough data on fixed and variable basis of other expenses. That would give more clarity as in how much of it would be fixed and how much of it would be variable.

Akshay S. Pitti: Out of the Rs. 30 crores of other expenses in the last quarter, about Rs. 15 odd crores would be fixed and the other would be variable in nature.

Karan Kamdar: Do you see any increases in freight costs because of the geopolitical disruptions and are the costs increasing currently?

Akshay S. Pitti: As of now, we have not seen any significant increase in the cost. But, again, as far as any cost increase is concerned, we are able to pass it through to our clients.

Moderator: The next question is from the line of Umesh Jain from Kotak Life. Please go ahead.

CA Umesh Jain: Congrats on a very good set of numbers as well as the guidance. My question is on Pitti Castings. If I remember correctly, the company had some unabsorbed losses and post-merger, I assume we will be able to set off with our existing listed operations. What's the total number of unabsorbed losses that we can utilize in the future?

Akshay S. Pitti: As of 31st March 2023, the unabsorbed losses in that company was approximately Rs. 80 crores.

CA Umesh Jain: The entire Rs. 80 crores will be available for us to utilize in the listed operations. I assume the tax rate in FY25 for us should be lower.

Akshay S. Pitti: Yes.

Moderator: The next question is from the line of Sanjeev Garbade, an individual investor. Please go ahead.

Sanjeev Garbade: Sir, my first question is regarding how the business environment in machining business is and how is it panning out in Europe?

Akshay S. Pitti: Machining business is quite buoyant. If you see today in the China-Plus-One strategy that a lot of the MNCs are using, the biggest opportunity for us to grow our business is in machine components, whether it is castings that you machine or fabricated parts. As far as specifically Europe is concerned, it's a good market to enter. Overall European market is down, but because they are trying to divert some of their sourcing to India, we are seeing a good amount of demand coming from Europe and North America, both.

Sanjeev Garbade: How many new components would we have added in the railways business, sir?

Akshay S. Pitti: I don't have that number off-hand, but it would be at least about 50 different kinds of components and assemblies put together.

Sanjeev Garbade: Sir, one last question on the financial side. Our gross debt has been steadily building up over the last few years. What would be the net debt by the end of this financial year?

Akshay S. Pitti: Net debt by the end of this financial year should be within line of what we had guided earlier. We are seeing a peak debt of Rs. 375 crores. What we had targeted earlier, we did not cross that.

Moderator: The next question is from the line of Tanish from Bees' Capital. Please go ahead.

Tanish: Can you give me a trend of current raw material prices versus last quarter?

Akshay S. Pitti: For the last quarter to this quarter, the raw material prices have remained stagnant.

Tanish: How are the margins across different segments? Railways or other segments enjoy higher margins or is it similar across the segments?

Akshay S. Pitti: The margin profile depends on the type of product that we supply. The more value add we do obviously has more margin in that. In terms of machining versus lamination, machining would have a higher margin when compared to lamination.

Tanish: I am talking about the segments like, say railways have higher margins or your power segment or is it similar across the profile?

Akshay S. Pitti: It is similar across the profile of the end market. It's only differentiated by the level of value add we do. And the other differentiation is in lamination versus machine component. Machine component is superior to lamination in terms of margins. And within lamination, the level of assembly and value addition defines the margin profile of that particular product. So, it is very possible that you supply a very highly assembled and value added product along with machining to any segment.

Moderator: We have the next question from the line of Mukund, an individual investor. Please go ahead.

Mukund: I just wanted to know your CAPEX plan for the next 3 years and also the debt profile for the next 3 years, if you can elaborate on that.

Akshay S. Pitti: In terms of CAPEX for the next three years; firstly, let me just start by giving the six months' plan. By September 2024, we will finish the approved CAPEX that we had announced in the past. That amount is about Rs. 120 crores, if I remember correctly, which will be completely capitalized by September, 2024. Beyond that, we are not looking at any significant CAPEX today. We will have probably Rs. 30 crores to Rs. 40 crores' worth of CAPEX ongoing every year.

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

Prathamesh Dahake: My first question regarding CAPEX is, once we are done with all the CAPEX that we have decided, how much time will it take to be fully utilized? And what is the highest revenue potential from the same? My second question would be, globally all players like Euro Group, Temple Steel etc., are very bullish on lamination and on course for auto components. While our exposure to auto is minuscule, how do you see demand for auto as well as the related sectors shaping in the Indian context?

Akshay S. Pitti: From the CAPEX done to the time you asked when we can utilize the full capacity, our capacity utilization first is about 80% of installed capacity based on historic levels. That is what we target to achieve. For FY25, we have set a target of 50,000 MT. For FY26, we are already on record setting a target for 57,000 MT to 58,000 MT. That would be the peak utilization. When we come close to achieving that, we will look at any additional CAPEX, looking at the market on that date to further enhance the capacity.

In terms of automotive business, you are right, Temple Steel and Euro Group, these companies are very bullish on automotive, especially EV traction motor related components. But if you see in India, the manufacturing of those EV motors, especially four-wheelers, is not happening in the country today. The opportunity in India for EV motors manufacturing lamination is a potential which can mature in some time.

Today we are trying to get into the automotive segment. If you see, we have some of the automotive players already listed as our clients now, and further, we are acquiring more clients, which we will be announcing in the next quarter. We are getting into their IC part of the business. We are getting into something like generator related products or stator motor related products to get into that ecosystem. And when those companies will start producing products for traction motors, we would be ready to supply those products to them.

On the EV product side specifically, we are supplying for two-wheelers already. The numbers and volume in that segment is growing, but the revenue potential is very small. In terms of revenue potential per two-wheeler, I think our product would not be more than Rs. 1,000 to Rs. 1500 for 1 lamination core. In four-wheelers, it becomes significantly higher.

Prathamesh Dahake: If we were to, let's say, on a very very broader level, divide our product portfolio into only loose lamination, semi assembled, and fully value assembled, how do you see the margins or gross margins varying? If you could give us some color as to if everything in our kitty goes into fully value added, how much margin improvement can we expect on the gross margin levels?

Akshay S. Pitti: On a segment basis, the quantum of fully assembled changes. If you take an appliance or consumer product, something like a fan, there's not that much value add that you can do on a particular product vis-a-vis something, say like a data center or renewable energy where there are large shafts, different kind of child parts, castings which you can integrate into the product. If you take in terms of the volume, the loose lamination to semi assembled to the fully assembled lamination, fully assembled would be about 10% of the revenues right now and semi assembled would be the remaining. We already gave you the breakup of assembled and loose. Out of the total product, I think 75% is assembled of which about 10% is fully assembled – the stator core and shaft and all those things integrated, and 25% is loose.

Prathamesh Dahake: In our major end sectors like railways and renewable energy, if I were to see margins, if I just give loose lamination versus if I give a fully assembled thing, how much extra do we enjoy in terms of gross margin? If you could give us some color on that.

Akshay S. Pitti: In terms of revenue, I would be more comfortable giving instead of gross margin. Firstly, if you take loose lamination, the loose lamination would be somewhere around Rs. 1,80,000 per tonne in terms of selling price and in terms of a fully assembled product solution, on the stator and rotor both, that would be about close to Rs. 9 lakh to Rs. 10 lakh per tonne. That is probably to kind of get an idea as to the gross margin potential.

Moderator: The next question is from the line of Mukund, an individual investor. Please go ahead.

Mukund: A year ago in one of the con-calls, your long-term goal was in 10 years, we should be touching a revenue of Rs. 7,000 crores to Rs. 8000 crores which is like close to $1+ billion; and in terms of metric tons, 1,50,000 MT was what was the goal that we wanted to achieve in the next 10 years. It's been a year now. Are we on track of it or how are we progressing towards it?

Akshay S. Pitti: I think 1,50,000 MT of sheet metal sales in 10 years is a goal that we are very confident of achieving. We are on track. There are developments which we are undertaking. Shortly you will see the result. It should kind of give you an idea as to where we are heading.

Moderator: We have the next question from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: Congrats on a good set of numbers. The first question is on the order book pickup that we have seen. Q on Q is almost 25% to 30% on an adjusted price basis. Would you call it some kind of one-off or seasonality or is there something to read into from a longer term basis that is possibly happening?

Akshay S. Pitti: On a longer term basis if you see, we are getting more order inquiries, as we had mentioned in the past also, from the European markets. Those orders are typically a longer cycle order book. That is the reason why you are seeing this growth. Especially from the marine segment and the wind power segment, we are seeing huge order input from the European markets. In addition to that, the overall wind energy market in India also is picking up significantly. And wind as a segment has a longer visibility in terms of order book.

Pulkit Singhal: The export as a component of order book, how has that possibly changed?

Akshay S. Pitti: I don't have that number off-hand, but if I have to estimate it, I would say that out of the 30% growth that you are seeing in the adjusted value order book, more than half, maybe 60% or 65% is driven from the export side.

Pulkit Singhal: And this, you are seeing continuing into Q4 and forward into FY25 as well?

Akshay S. Pitti: Yes. On the export side, the value-added product is more prevalent. We are seeing a lot of transition from loose to more assembled lamination and from assembled to even more assembled products in the export business going forward over the next 1 year. The value per tonne on export will keep going up.

Pulkit Singhal: And the size of it, what you talked about exports, whatever it be in terms of China-Plus-One or European costs going up, that structural aspect because they are finally playing out in orders, as you see right now?

Akshay S. Pitti: Yes.

Pulkit Singhal: Secondly, in terms of the non-motor part of the business, i.e., non-laminations or anything to do with motors, how big is that now in FY24? How are you seeing that shape up over the next two years? Because, when you talk about targets purely in terms of tonnage, I am presuming that can be a bit misleading because that just talks about the motor side of the business.

Akshay S. Pitti: Non-motor generator related revenue, we would be targeting Rs. 500 crores top line by FY27.

Pulkit Singhal: And where is that right now in FY24, broadly?

Akshay S. Pitti: Right now, we don't have a number for pure non-motor because there are so many components that we do machining and castings which go into the motor component that we don't track them separately. But if I were to estimate it, it should be about Rs. 125 crores to Rs. 130 crores top line today.

Pulkit Singhal: This Rs. 125 crores is what you are saying may go to Rs. 500 crores, effectively?

Akshay S. Pitti: That is the basic rationale for acquiring the foundry and merging it into the List Co.

Pulkit Singhal: Almost 30% of sales which is external, almost maybe Rs. 50 crores is added purely from an acquisition perspective?

Akshay S. Pitti: Yes.

Pulkit Singhal: It's still closer to Rs. 170 crores going to Rs. 500 crores. To that extent, the realization per tonne can significantly go up. The tonnage aspect will not be capturing this part of growth?

Akshay S. Pitti: Yes, exactly. And the EBITDA per tonne also will go up because of this.

Pulkit Singhal: It will be good if we can start disclosing annually or quarterly because this is a different vector of growth and has nothing to do with tonnage.

Akshay S. Pitti: We are working on that. We are trying to put a metric where we can kind of separate these two verticals and kind of give ideas at least on the top line and the gross margins. Maybe we will not be able to distill it down to EBITDA basis but at least on a gross-margin basis to give you a segment. We are working on that. I think post the integration of the foundry, it will become easier for us to do that accounting and share with the team.

Moderator: The next question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: In this quarter, around 50% is obviously railways, so Rs. 150 crores of run rate in the quarter. I just wanted to understand if this is sustainable and are we seeing this kind of an order book? And secondly, if you could give a rough breakup. Wabtec would be how much? Is it 60% to 70% Wabtec? Just some directional view would be helpful.

Akshay S. Pitti: Wabtec would be about 55 odd percent in terms of the overall railway business. In terms of the railway being sustainable at 50%, I don't think that is sustainable. As our revenue will go up, railways will contribute even going forward maybe Rs. 150 crores to Rs. 160 crores of top line, but we are expecting the overall business value to increase.

Naysar Parikh: So, the incremental growth then in this quarter would be, say driven by railways

Akshay S. Pitti: Going forward, we are seeing values coming in from wind segment and power generation. If you see the current quarter, all of those segments are down when compared to the past. Those will pick up once again as the revenue goes up.

Moderator: We have the next question from the line of Bhavani Kumawat from PhillipCapital. Please go ahead.

CA Bhavani Kumawat: I just wanted to understand that recently, the government has announced in its budget to convert normal bogies into Vande Bharat kind of standards. Is there any opportunity lying for us in this segment? I just wanted to share your view on this.

Akshay S. Pitti: In that, we wouldn't have any significant opportunity as they are trying to upgrade the existing train system into the interior standards and quality of Vande Bharat. Where we have the opportunity is something like in Vande Bharat where the coaches themselves are self-propelled. On the self-propelled coaches, yes, we have an opportunity, and on the new locomotive, we have an opportunity. We don't do any parts which are on the inside of the locomotive like your berth or toilet or lighting; all of those kind of things, we don't do.

CA Bhavani Kumawat: Also, sir, it will be helpful if you can give two or three revenue drivers going ahead from some segments or any order in pipeline that will be very helpful for us.

Akshay S. Pitti: If you see, the railway business has grown significantly in the last quarter, which I see continuing going forward. In addition to this, in the power generation and wind power segments, we are seeing good growth coming over the next couple of quarters. We have some new customer acquisitions also in both of those segments apart from regular product development happening.

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 9920209623. Thank you for joining us, and have a wonderful day.