Earnings Conference Call

Q1 FY2017

August 12, 2016

Management:

Mr. N R Ganti, Director

Mr. N. K. Khandelwal, Chief Financial Officer

Moderator: Ladies and Gentlemen, Good Day and Welcome to Pitti Lamination Q1 FY2017 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. Joining us today on the call Mr. N R Ganti – Director and Mr. Nand Kishore Khandelwal – CFO.

Before we begin I would like to mention that some of these statements made in today's call may be forward looking in nature and may involve risk 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. Ganti. Thank you and over to you sir.

N R Ganti: Thank you, Aman. Good Evening and welcome everyone to our Q1 FY2017 Earnings Conference Call. I have with me on the call today Mr. Nand Kishore Khandelwal – CFO. We hope that you have had a chance to review our Result Presentation which is also available on our website. I would like to start by providing the overview of the prevailing macroeconomic scenario followed by performance of the quarter including highlights of our key strategic and operational performance. We will then open the call for Q&A session.

Before discussing the financial for the quarter, I would briefly discuss the performance key macroeconomic indicator:

India's index of industrial production (IIP), which represents the status of production in the industrial sector, increased by 1.2% in May 2016. Electricity generation and manufacturing segments contributed the most to the growth of the IIP.

In terms of industries, 14 out of 22 industry groups in the manufacturing sector have shown growth during the month of May 2016 compared to the corresponding month of the previous year.

Manufacturing and mining grew by 0.7% and 1.3% respectively. Electricity generation grew by 4.7%; Production of capital goods shrank 12.4% in May, the 7th consecutive month of contraction signalling the private investment demand remains week. On the cumulative basis the factory output in April-May contracted by 0.1% compared to 2.8% growth in the year ago period.

Now related to our performance of the company for Q1 FY2017:

We did report a satisfactory performance despite the production loss of around 20 working days on account of labour unrest during the month of April 2016.

Coming back to sales volume by metric tons (MT), during Q1 FY2017 we recorded volume of 4,253 MT compared to 5,107 MT in Q1 FY2016. There is a negative growth of 16.7%. On sequential basis, volume declined by 13% from 4,889 MT in Q4 FY2016. Volume declined mainly due to decline in the exports. Domestic volume increased by 14.4% to 3,688 MT in Q1 FY2017 from 3,223 MT in Q1 FY2016. As compared to Q4 FY2016, domestic volume increased by 2% from 3,616 MT. The reason for the improvement in the domestic lamination volume is mainly due to increased focus on the domestic market and domestic market seems to be reasonably stabilized. Exports volume declined by 70% to 565 MT from 1,884 MT in Q1 FY2016. Compared to Q4 FY2016, volume declined by 55.6% to 1,273 MT. Export demand continues to be muted. Generally, the exports are better in the second half of the financial year.

When you look at the revenue break up,Q1 FY2017 revenue is Rs. 581 million compared to Q1 FY2016 of Rs. 857 million. The contraction is about 32.2%. Compared to Q4 FY2016 revenue declined by 24.5% from Rs.769 million. Revenue declined mainly due to significant decline in volume and loss of 20 working days during the quarter. Also one of the reasons was lower sale price compared to Q1 FY2016 due to lower RM prices. If you look at the domestic sales it has declined by 9% to Rs. 381 million in Q1 FY2017 compared to Rs. 419 million in Q1 FY2016. For Q4 FY2016 it was Rs. 408 million compared to Rs. 381 million in Q1 FY2017, declining by 6.5%. Export sales was at Rs.193 million in Q1 FY2017 compared to Rs. 433 million in Q1 FY2016, reflecting a negative growth of 55.4%. For Q4 FY16 it was Rs. 351 million.

As stated exports sales declined by more than half. However, the margins were better because of the better product mix and stabilized export price realization. More value-added products have been included in the sales. It includes stator frames of 36 numbers compared to nil of Q4 F20Y16.

Other operating income more or less on the same line Rs. 7 million for Q1 FY2017, while in Q1 FY2016 it was Rs. 5 million and in Q4 FY2016 it was Rs. 10 million. So there is a 26.9% year-on-year growth; however, from the previous quarter it is 37.9% lower.

If you look at the revenue in the absolute terms, in Q1 FY2017 it is Rs. 581 million and EBITDA of Rs. 89 million, while in Q1 FY2016 the revenue was Rs. 857 million with an EBITDA Rs. 94 million. Year-on-year revenue growth is (32.2)%. EBITDA margin is around 4% higher as compared to Q1 FY2016. Compared to Q4 FY2016 revenue declined 24.5% from Rs. 769 million, however EBITDA increased by 138% from Rs. 37 million. EBITDA is defined as profit from ordinary activities before finance cost, depreciation, exceptional items and includes foreign exchange loss or gain.

During the quarter EBITDA margin significantly improved supported by improved operational efficiency, reduction in raw material wastages and more importantly Pune plant operating at optimum utilization level. EBITDA margin for Q1 FY2017 is 15.4%. For Q1 FY2016 it was 11% and Q4 FY2016 it was 4.9%. The company reported net profit of Rs.12 million in Q1 FY2017as compared to Q1 FY2016 net profit of Rs.15 million, declined by 17.4% YoY. However, for Q4 FY2016 it was loss of Rs.43 million compared to a profit of Rs.12 million now.

The performance in the quarter was impacted as Rs.15 million has been provided as a one time severance package towards full and final settlement to the unionized employees as per settlement agreement date of 1st July 2016, which is the second tranche at the Plant-1. With this in plant 1 all the unionized employees have opted out of employment.

Coming to our leverage profile, we are reasonably comfortable with current capital structure. As of 30th June, 2016 total debt was Rs. 1,620 million including Rs. 316million of long term debt and Rs. 1,304 of short term debt. Cash and cash equivalent of Rs. 171 million resulting in net debt position of Rs. 1,449 million. Net worth of Rs. 1,082 million. As of 30th June 2016 total debt-to-equity ratio is 1.5x, we consider it to be conservative.

The performance in the quarter is an early indicator of efficient functioning of various risk mitigation indicatives undertaken by the management. We have been sharing with you that there is a separate team looking at every aspect of the manufacturing activity and finding ways to be more efficient. These initiatives are anticipated to further enhance contribution going forward.

The management continues to focus on expanding its presence in the domestic market to reap the benefit of the growing domestic economy. The raw material price is somewhat stabilized and in fact increased in last few months giving reasonable assurance of bottoming out. The cycle of rising prices will be positive for the operating margins in the near term.

We will continue to build on initial momentum generated and expect marked improvement during the second half of the current fiscal year. The factor driving growth in near-term includes better product mix, more high value-added products to improve profitability despite flattish volume growth, efficiently enhancement across all plants and ongoing cost realization initiatives. We anticipate improvement in industrial activity in the coming quarter. This is broadly our outlook for coming quarter.

We would like to open now the call for question and answer session.

Moderator: Ladies and gentlemen. As there are no questions from the participants, I would like to hand the floor over to Mr. N. R. Ganti for closing comments. Thank you and over to you sir

N R Ganti: Thank you participants. If there are any doubts that you have now, you can always reach us to us. You have our mail id and thank you for participation.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of Pitti Lamination that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability