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

18th March 2024

To,
BSE Limited
Floor 25, P J Towers, Dalal Street
Mumbai – 400 001

Scrip Code: 513519

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

Scrip Code: PITTIENG

Dear Sir,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Transcript of the Audio Conference call for investors on 14th March 2024

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With reference to our letter dated 11th March 2024, intimating about the conference call with investors to be held on 14th March 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
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Digitally signed by MARY MONICA BRAGANZA
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"Pitti Engineering Conference call for Discussing the Acquisition of Bagadia Chaitra Industries Private Limited."

March 14, 2024

Moderator: Ladies and gentlemen, good day and welcome to Pitti Engineering Conference Call for Discussing the Acquisition of Bagadia Chaitra Industries Private Limited.

Joining us on the call today are Mr. Akshay S. Pitti – Vice Chairman & Managing Director 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. 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 this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Akshay Pitti. Thank you and over to you, sir.

Akshay S Pitti: Good evening and a warm welcome to everyone on the call. Before we move to the Q&A session, I will walk you through the acquisition, touch upon the highlights of the entity being acquired and the synergies it will bring to the consolidated business.

Pitti Engineering signed the definitive agreement to acquire 100% of the equity share capital of Bagadia Chaitra Industries Private Limited on 11th March, a historic day for our industry as this is the first such M&A in the lamination space.

The entity's enterprise value was Rs.124.92 crores as of 31st March 2023. The consideration payable on the closing date shall be the enterprise value adjusted for net debt and net working capital changes from the agreed baseline of 31st March 2023.Further the purchasers shall compensate for the capital expenditure and CWIP at the time of closing.

The entity operates out of Tumkur district, Karnataka, where it set up a new and modern manufacturing facility in 2019. The facility's installed capacity is 18,000 tonnes per annum. The acquired entity applies its products to various end user industries, including alternator, motor, and pump. Majority of its sales are in the smaller size laminations and SMBs. It achieved a turnover of Rs. 264 crores earned an EBITDA of Rs. 14.11 crores and a PAT of Rs 6.19 crores for the year 2023. As you know, we are in the process of reorganizing Pitti Engineering's manufacturing capacities, concentrating all of our 72,000 tonnes motor and generator components business capacity in Aurangabad. Furthermore, with the impending merger of Pitti Castings, Hyderabad will become the vertically integrated center for all our machine components business. This acquisition will give us a strategically important manufacturing base in Bangalore, one of the largest consumption centers of motor and generator components in South India. Further, its proximity to Coimbatore, Chennai and Hubli will result in lower logistical cost and improved customer serviceability in the region.

The entity is estimated to end with sales of 14,000 tonnes for FY24. As part of our realigning of productions, we will move approximately 4,000 tonnes of annual production from Bangalore to Aurangabad, and about 6,000 tonnes from Aurangabad to Bangalore. This will help significantly lower logistical cost on a consolidated basis. Typically, in the lamination industry, material costs are about 80% of total cost.

Any savings here have outsized positive impact on the margins. As you are aware, Pitti Engineering predominantly manufactures large-size laminations. The addition of smaller sized products from this acquisition will enable better raw material utilization on a consolidated basis.

As this concludes our brief on the acquisition and the synergies it brings, we will now move to the Q&A session. Thank you.

Moderator: Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of Piyush Jain, individual investor. Please go ahead.

Piyush Jain: I just want to understand the objective behind this acquisition. Is it something the facility of the target company or the client customer, as we have said that we will get to penetration in South market, so just wanted to understand the whole idea because when we see this company is having an EBITDA margin of around let' say maybe a very suboptimal level as compared to the Pitti. So, just wanted to understand your thoughts.

Akshay S. Pitti: So, there are multiple reasons that this acquisition makes sense for us. If you see, as you rightly noted, the company's EBITDA margins are vastly lower than our margins. With the addition of this company in our product portfolio, the improved raw material utilization will enable us to significantly increase the EBITDA margins of that entity. In addition to that, since we are moving our entire lamination manufacturing base to Aurangabad in Maharashtra, we wanted to still have a presence of manufacturing in South of India to lower the logistical costs. So, if you see the 10,000 tonnes of relocation of the production base that is another significant saving in terms of logistical costs. So, on a consolidated basis, this acquisition makes a lot of sense and will be extremely margin accretive.

Piyush Jain: But when a company is having a very suboptimal EBITDA, I believe the EBITDA number is something around maybe 5% to 6%. Then aren't we paying a valuation high, because I believe we are paying some 8x-10x of the EBITDA number?

Akshay S. Pitti: For the year 2023, the raw material prices were higher, therefore the EBITDA margin looks lower in percentage terms. If you see historically that company has been able to achieve between 6% to 7% EBITDA when the raw material prices were normal. As the raw material prices normalize, we'll get back to that level. We are paying more for the capacity and the volume of business that they are doing, which is about 14,000 tonnes of ready business, and the type of business that they are doing, which is complementary to our material utilizations.

Piyush Jain: Okay, so as I understood they have a capacity of around 18,000 metric tonnes, correct?

Akshay S. Pitti: Yes.

Piyush Jain: So, how much revenue this 18,000 metric tonnes can generate?

Akshay S. Pitti: So, this 18,000 metric tonnes will typically generate about Rs. 300 crores of top line on the current raw material price basis.

Piyush Jain: Okay, so any idea in the current year, six months or nine months number if you can just give some information related to because as you said, the 2023 margin was subdued. So, any color on the current year EBITDA number?

Akshay S. Pitti: So, we have the H1 numbers of that entity, they are at about 6% EBITDA margin and the EBITDA margin is continuing to improve as a percentage of sale as the raw material prices continue to decline.

Piyush Jain: So, as I understood from you, the growth opportunity with this 18,000 tonnes will be limited because the company is already doing Rs. 260 odd crores revenues and you are saying 18,000 tonne can do Rs. 300 crore or something, so the growth from here will be limited. So, I didn't understand exactly how this will help Pitti or what synergy this can bring as you said the entity's margin will improve. But what it will bring the synergy to Pitti, I am still unable to understand.

Akshay S. Pitti: First is dealing with turnover and tonnage. The turnover which I am suggesting is in the looking forward basis. If you see in terms of tonnage, they have done about 14,000 tonnes of production and they have a capacity of 18,000 tonnes. So, we have about 4,000 tonnes of surplus capacity available in that particular location in Bangalore. We are doing two things. One, we are reorganizing the business to the right location. From our Aurangabad facilities, we ship about 6,000 tonnes of material to Bangalore and its surrounding regions which has a great logistical cost. So, that will be relocated to Bangalore and vice versa, the entity that we have acquired ships about 4,000 tonnes to Maharashtra and further north. So, by relocating these two businesses to the right location of consumption centers, it will reduce logistical costs which will enable margin growth. Secondly, the type of product that this company makes, which is a smaller products, helps us in better utilization of raw material at a corporate level. We make larger laminations wherein the **side strips** are scrap for us. So, that scrap will become the raw material for this entity's production. So, your overall material cost will go down on a consolidated basis which will increase your margin.

Piyush Jain: Okay, so this target entity's sales will not be captive goods for Pitti, correct? This will again be sold to the end customer only, correct?

Akshay S. Pitti: Yes, it will be for the end customer only.

Piyush Jain: And we believe this margin will be expanded in line with what the Pitti is doing maybe around the 14% - 15% type of margin in a year's time?

Akshay S. Pitti: See, our margin is also a factor of the machine components. This entity does not have machine components, neither does any other lamination manufacturer have. So, it will not come in line with something like what our margins are. They may improve to maybe about 10% EBITDA margin on Rs. 300 crores of sales, roughly about Rs. 30 crores.

Piyush Jain: So, they don't have a machining capacity, they don't have a lamination capacity.

Akshay S. Pitti: They have a lamination capacity; they don't have machining capacity. Machining is typically used in the bigger assemblies and more complicated products, not in the simpler type of laminations and assemblies that they do.

Piyush Jain: And one more thing, I think we have already approved this, the merger of Pitti Castings also. Correct, so where this is at now and how much is the top line or EBIDTA perspective say that can be added to the Pitti Engineering's balance sheet?

Akshay S. Pitti: So, the timeline for the merger is as follows. On 22nd March, we have a shareholder meeting to approve, to consider and approve the transaction. Post that, I believe it takes about 2 to 2.5 months for the final effect to be given, depending on the approvals. As far as what we expect, it will add to our profitability for the current year for FY24, we are estimating about Rs. 20 crores EBITDA in that Pitti Castings.

Piyush Jain: Just last question, because of this acquisition, are we getting into any client-based acquisition or something? Is there anything else we are getting other than the capacity and the regional, what you said, saving of logistics cost and so on?

Akshay S. Pitti: So, if you see, we don't cater to the pump industry today, as an end user market. So, that will give us a presence into that. The company that you are acquiring about 35%-40% of the revenues come from the pump segment. And that's a huge business segment that we don't operate in. So, that segment will further add going forward, more sales to us.

Piyush Jain: And the last thing, do we want to do any expansion in this segment, where we want to get our pumps, home appliances, and EV segment, and to increase this capacity from 18,000 tonnes to maybe whatever x number? I know it's too early to ask, but still, is there any vision and thought process behind this?

Akshay S. Pitti: Most certainly we will be doing that. So, if you see, firstly, Pitti Engineering the 72,000 tonnes capacity that we are creating, we estimate full capacity utilization in FY26. Something similar will be there in the Bangalore location where they are currently doing 14,000 tonnes. As a result of these tonnages moving around, maybe that facility will be at full utilization by middle of FY26 itself. So, around that time, we should be looking at expanding into a new facility, a large facility in Bangalore and think about something like a 30,000-35,000 tonnes capacity in Bangalore with a focus on the lower product segments such as pump and home appliances which are very-very strong consumption centers in what do you say Coimbatore and in Bangalore both.

Piyush Jain: And what is the thought process on this debt? Because debt is increasing and we are still in the CAPEX mode, acquisition also we are doing, and I think 40 crore we are infusing. And further, I think this is the EV of Rs. 120 odd crores, there will be some debt which also coming to Rs. 50 crore. So, what are we expecting as our peak debt for 2024 or 2025? And then what is our plan to reduce the debt to reduce the interest cost?

Akshay S. Pitti: So, if you see with this acquisition, we are going with debt to fund this acquisition. Our peak debt will be about Rs. 450 crores- Rs. 460 crores as a result of this acquisition. After that, we are not having any additional capex plans till the middle of FY26. So, the cash accruals in this period should be, in my view, sufficient to ensure that we are nearly debt-free in that same time period.

Piyush Jain: Debt-free by?

Akshay S. Pitti: By 2026.

Piyush Jain: Are you saying Rs. 450 odd crores debt we will reduce in 2 years' time? I don't think we have that much of things happening?

Akshay S. Pitti: Almost, it will be. If you see from Pitti Casting merger itself, like I said, they are doing about Rs. 20 crores EBITDA, that company has no debt in its books and therefore no interest cost. Similarly, the entity that we are acquiring now, this Karnataka Company, we are estimating the EBITDA to go to about Rs. 30 crores. And organically, the growth that we are seeing in our business, we should be generating about Rs. 400 crores of cash flow annually. So, in the 2-years' time, we should be nearly debt free.

Piyush Jain: Then just last one thing. Do we have any pending CAPEX in the current year or maybe FY25 or something, which is ongoing, or we are about to expand some Capex?

Akshay S. Pitti: So, for FY25, I think about Rs. 40 to Rs. 45 crores of CAPEX will be there. And that kind of capex will be ongoing on a regular basis. Those are small incremental capex, they are not large projects that we are taking on.

Piyush Jain: By FY26 there is hardly much debt-laden capex is there. And with the acquisition also, we will be picking out our data of Rs. 450 crores to Rs. 500 crores which we expect the synergy with Pitti Casting merger with this acquisition cash flow coming and with tendering order whatever generating. Maybe two years' timeline, we will be able to get debt-free or maybe a type of 100 crore type of debt number. Is that some understanding I understood, is it correct?

Akshay S. Pitti: Absolutely correct.

Moderator: Thank you. Next question is from the line of Rabindra Nath Nayak from Sunidhi Securities. Please go ahead.

Rabindra Nath Nayak: Actually, can you please tell me what the volume number is for FY22 and FY23 for this company that we're acquiring?

Akshay S. Pitti: So, FY22 was about 12,000 tonnes and FY21 I don't have the volume number for that right now.

Rabindra Nath Nayak: I am talking about FY23.

Akshay S. Pitti: FY23 was Rs. 12 crores, 12,000 tonnes

Rabindra Nath Nayak: So, that means you know the EBITDA per tonne is around Rs. 11,758. So, you said about this year you will be finishing with Rs. 30 crores of EBITDA you said?

Akshay S. Pitti: Not this year, after the acquisition is completed and we get the synergy benefits of raw material utilization between our existing products and that company's products, we estimate the EBITDA to move to about Rs. 30 crores. There are two savings. There is one on the logistical cost and the second on the better utilization of raw materials.

Rabindra Nath Nayak: This year you said the volume would be around 14,400 tonnes and if I say there is some increase in the EBITDA per tonne, which is around say 15 crores to 16 crores then the rest would be savings.

Akshay S. Pitti: So, let me rephrase. They will do about 16,000 tonnes next year from their end user segments. That should yield them about 16, 17 crores EBITDA and the remaining 12 crores-13 crores will come from the synergy benefits.

Rabindra Nath Nayak: And lastly, can you please tell me what is the industry by-focusing to the revenue, particularly if you mention about the pump industry? And what are the other industries? It is largely consumer durable or any other industry you are saying?

Akshay S. Pitti: No, see 30% to 40% is coming from pump industry, about 40% is coming from alternators and the remaining 20% is coming from general home appliances, those kind of stuffs.

Rabindra Nath Nayak: Whether we are planning any further capital expenditure in this business or?

Akshay S. Pitti: So, we will review that in FY26. So, far with the expansion in Pitti Engineering in Aurangabad and this acquisition and the reorganizing that we have to do between Bangalore and Hyderabad facilities, we think we have enough capacity to see us till FY26. For FY27 targets which will start working next year, we may look at CAPEX in FY26 if required.

Rabindra Nath Nayak: So, we are not going to do any QIP for this acquisition, right?

Akshay S. Pitti: Right now I cannot comment on anything like that. This acquisition primarily today has been funded by debt. On any fund raising I am not allowed to comment.

Moderator: Thank you. The next question is from the line of Akash Singhania from Art Ventures. Please go ahead.

Akash Singhania: I have two questions. So, first, let's say if we would have acquired a green field facility in Bangalore, Karnataka with the similar capacity in terms of lamination and land, how much would it have costed us? Just any ballpark number?

Akshay S. Pitti: The capital expenditure in land building and machinery would have been at today's pricing about 50 odd crores. If you see the company that we acquired their said gross block is about 30 odd crores as is. And if you adjust it for inflation to set up such a facility today would cost about 50 crores.

Akash Singhania: And do we have land over there to let's say increase the capacity post FY26 in case we intend to increase over there. So, do we have infrastructure or land available for brownfield expansion?

Akshay S. Pitti: No, this facility does not unfortunately have any land available for brownfield. If we have to expand it, we have to do a greenfield expansion which you would anyways preferred as you would like to create a bigger, much larger facility going forward beyond FY26. There is sufficient industrial land available in and around the same industrial park that this facility is located in.

Akash Singhania: And do we intend to put machining facility as well in this plant or we'll continue with laminations only?

Akshay S. Pitti: So, we will transfer some of our machining facility from our existing Hyderabad and Aurangabad facility which will complement the tonnage move from Aurangabad to Bangalore. There is no intention to do pure machine components in Bangalore as of now.**Moderator:** Thank you. Next question is from the line of Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: So, like what is the debt and cash levels?

Akshay S. Pitti: The debt as of 31st March 2023 was about 29 crores in the entity. In terms of cash, I think there are about 8 crores of cash and cash equivalents in the entity.

Balasubramanian: You talked about 12 crores-13 crores comes from synergy benefits, so what kind of synergies we have in terms of raw material and others?

Akshay S. Pitti: So, it's basically from the utilization of the steel coil. If you see the raw material, it comes in a form of 1200 millimeters with standard coil. We make the larger lamination wherein if you are making any lamination more than 800 you cannot typically use the remaining side sgtrip for anything equivalent to 800 obviously. So, this company makes laminations just smaller in diameter so we can utilize these raw material coils in a much better way to derive synergies on the overall material cost.

Balasubramanian: Any other synergies?

Akshay S. Pitti: Secondly, like I already mentioned, there are synergies in terms of logistics cost. We from our Aurangabad facility typically ship about 6000 tonnes of material to Bangalore, which after this acquisition will be produced in Bangalore and sold in Bangalore. Vice versa, the company that we are acquiring ships about 4000 tonnes of material towards the North, that would be made in Aurangabad and the logistical cost savings should be significant also in that. So, these are the two major financial synergies. Apart from that, obviously, you know, the economies of scale kick in, the purchase benefit comes in. If you are buying a significant quantity of raw material, you have an outsized impact on the supply chain side, thereby reducing material costs. You'll have a faster product development cycle. So, the non-financial synergies also are many in nature, which we cannot quantify right now.

Balasubramanian: Sir, this current capacity 18000 tonnes post FY26 we are adding 32K-35k tonnes, it's a nearby place right sir, that factory?

Akshay S. Pitti: We are not adding, I am saying if the market supports us, we may choose to then expand the Bangalore facility rather than the Aurangabad facility at that particular point of time.

Moderator: Next question is from the line of Prathamesh from Motilal Oswal. Please go ahead.

Prathamesh: My question is, first you've mentioned that some of the machining expertise would be transferred to Bangalore. So, would it be fair to assume that there will be an improvement in realization per tonne for the Bagadia facility?

Akshay S. Pitti: So, see, they will be moving our business to the Bagadia facility and Bagadia's business to our facility. At the end of the day, this will be a WOS.. So, the right way to look at it as a consolidated basis what is the margin. It's not like we are improving the margin of this business by moving machining. This business does not require any machining. We are moving those products which are being manufactured in Aurangabad which requires certain amount of machining to Bangalore for better cost optimization on transportation.

Prathamesh: So, like you mentioned that 6000 tonnes would be moving from Aurangabad. So, big laminations would be moving there, and small lamination would be moving from Bangalore to Aurangabad. Is it fair to assume?

Akshay S. Pitti: Yes. So, it's not just about size. It's about where the eventual consumption of that particular product is. So, those would be realigned to save logistical cost. And whatever complementary facilities are required to do these productions would be moved. It may be that some machines may move if required.

Prathamesh: So, you've mentioned RM cost as well as logistics cost being one of the levers towards EBITDA improvement. Would, let's say, salaries, employee benefits would also be a lever going forward which would improve EBITDA margins for the company level or at the Bagadia level?

Akshay S. Pitti: So, obviously with the more business, the overheads will be spread wider, so that indirect benefit will anyways get. As far as any employee cost rationalization at the Bagadia entity level, I don't see much potential there, as they are very lean operations as I had mentioned in my introduction. So, there's not much scope for doing that there.

Prathamesh: And could you please give us more around the type of clients like you mentioned that these are basically small laminations, who would be the clients basically if you were to give a couple of names that Bagadia caters to?

Akshay S. Pitti: They are smaller in size, but in terms of end application, they both still going to the alternator space, the motor and the pump. So, on the pump side, Texmo Pumps is one of the largest clients. Then they have a company called Nidec, erstwhile Leroy-Somer which is a major client. And to some extent, about 20% or 25% of the revenue overlaps with our clients as well on the smaller end of their product requirements.

Prathamesh: As far as client concentration is considered, customer concentration, how would the top 5 or top 2 customers account for Bagadia?

Akshay S. Pitti: So, for FY21, top 3 accounted about 57%. And in FY24, H1FY24, top 3 was about 70 percent.

Prathamesh: And top most would be 30% again if we were to see.

Akshay S. Pitti: Yes.

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

Sanjeev Zarbade: My question was regarding the market size of the small motors, could you take us through that. sir?

Akshay S. Pitti: The small and large motor put together, like we say, is about a 700,000 tonne RM equivalent market. With this acquisition, we should be reaching somewhere around 90,000 tonnes to 100,000 tonnes of e-steel consumption. So, post this acquisition, from the small and large both put together, we are around 12%-13% of the overall Indian market.

Sanjeev Zarbade: In value terms, how large would be the small motors market?

Akshay S. Pitti: In value terms, this is not just motors that this company is making. If you see the lamination that they sell to Nidec it's also for power generators. So, it would be very difficult to correlate that with this acquisition. As far as the small motors market is concerned, apart from the appliance and pump, I believe based on whatever we understand from our customers, it's about a 5,000 crore to 6,000 crore market. There's a small one, other than pumps, alternators and home appliances.

Sanjeev Zarbade: And sir, is it possible for any outsourcing opportunities from let's say the established small pumps makers where we can deliver small motors for their pumps, any such opportunities or scope for such opportunities there?

Akshay S. Pitti: I think it is too premature for me to individually comment on this as we have just gotten into this acquisition. Once we get more interaction happening with the end customers and understanding their requirements, I will be in a better position to comment on that.

Moderator: Next question is from the line of Khushbu Gandhi from Share India Securities. Please go ahead.

Khushbu Gandhi: One question from my end. How do we see ourselves in the next two to three years in the lamination capacity? Because right now we are extending 72,000 tonnes plus 18,000 tonnes. So, any more expansion are we looking in this?

Akshay S. Pitti: So, till FY26, which is the next two years, we are not planning any additional capacity. We first need to start utilizing this capacity towards most optimum utilization. For FY27, we will take a call next year how the market is rolling out and then look at investment requirements.

Khushbu Gandhi: And sir in the lamination for the new acquisition where we have done, is this fully automated like what we have done in the Aurangabad facility, or this is semi-automated?

Akshay S. Pitti: So, I would say that 70% of their production comes from highly automated processes because they are smaller lamination, little bit of the mid and large sized lamination that this facility does do comes from manual operations.

Khushbu Gandhi: Any plans for revamping or for automations over there?

Akshay S. Pitti: Right now there's nothing planned. Maybe in the operational capex that we keep doing like I said, 40-45 crore, those we do have a budget for the next two years, each year, maybe in that we may take up some of that.

Khushbu Gandhi: Are we going to do any of the sales of this pumps and alternators to exports or this is purely domestic?

Akshay S. Pitti: So, the pump and the alternator that this company is manufacturing is purely domestic. They do have exports. I believe it's about 8% or 10% of revenue is exports, mainly to Europe.

Khushbu Gandhi: So, do we have plans to increase our exports over there or this ratio will continue going forward?

Akshay S. Pitti: This entire turnover will obviously get consolidated, it will become a WOS, we will reorganize the business to its right location. So, there is no inherent benefit in doing the exports from Bangalore. It would be most appropriate if that exports, sales are moved to our Aurangabad facility where we can utilize the raw material in a much better manner and also help reduce our logistical cost by bringing up capacity in Bangalore to do our legacy Pitti engineering business in Bangalore. So, we will be doing those reorganizing between the facilities. We are not seeing these as two different companies. We are seeing this as facilities of the same parent company, which is Pitti Engineering.

Khushbu Gandhi: So, my point was that are we looking for exports in the alternators and the pumps to increase going forward or the ratio will be the same for this?

Akshay S. Pitti: It will continue the same I would say.

Khushbu Gandhi: And any idea on what is the order book currently which we have for Bagadia?

Akshay S. Pitti: I believe it is about 100 crores to 120 crores.

Moderator: Thank you. Next question is from the line of Akash Jain from Money Curves Investments. Please go ahead.

Akash Jain: I just heard a small clipping on a news channel that you had given where you had broadly guided that FY26 at 70% utilization for all three combined companies you were accepting a 1,700 crore revenue and around 17% EBITDA margin. So, one is broadly does that number sound right? Also I want to understand for FY26, not really a guidance, but if you achieve full utilization across the three companies, what kind of revenues and margins are you expecting for FY26? Very broad guidance that was part one of the question.

Akshay S. Pitti: So, if I have to break it up so that you can better understand what we are trying to say. If you see the 1,700 crores top line, that's a factor of the current sales price per tonne of Pitti Engineering multiplied by the guided sales tonnage for FY25. We are adding the turnover which will accrue from the acquisition as well as the merger of Pitti Casting. In terms of margin profile, if you would see, we have guided to about Rs. 48,000 EBITDA per tonne in Pitti Engineering. So, that into the tonnage plus the EBITDA that will accrue with the synergy benefits from Bagadia takes us to about 17% on a console basis, EBITDA for FY25. Now, if you just extrapolate these numbers forward for FY26, and again, this is a very basic and rough guidance, if I may call it that, would be that Bagadia business would kind of saturate at 30 crore EBITDA post synergy basis and obviously the machine components is growing in Pitti Engineering and the tonnage in Pitti Engineering will expand to about 56,000 tonnes which would be around the peak utilization of our capacity in Aurangabad. And at that point of time, we would be looking at about 50,000 EBITDA per tonne in Pitti Engineering. So, on a consolidated basis of all three businesses, we should be looking at about 350 crores to 360 crores EBITDA, plus about 35 crores of the incentive income from Maharashtra State Government.

Akash Jain: Just one quick refresh question. So, post the merger with Pitti Castings, what will be the total outstanding new shares because some dilution will happen for the Pitti Engineering shareholder? So, just a refresh for us.

Akshay S. Pitti: Approximately it's about 22 lakh shares which is being issued and the total share capital should become about 3.42 crore shares.

Moderator: Thank you. Next question is from the line of **Karan Kandar from DR Choksi**. Please go ahead.

Karan Kandar: May be this question is already answered, I joined little late. So, the EBITDA margin in the press release was about 5% from the right for the Bagadia entity. So, I would have wanted to understand is how would we grew to 17% or 14% with their guiding for Pitti?

Akshay S. Pitti: So, you see, Pitti Engineering, we are currently at about 15% odd EBITDA. If you add Pitti Castings post-merger, that's for current year itself, we're doing about 20% of EBITDA. In terms of sales, if you cancel out the sales to Pitti Engineering, it'll add about 50 crores to 60 crores only to the top line. So, that itself kind of takes you to a pretty high EBITDA number. And if you add Bagadia Chaitra along with its synergy benefits that will give about 30 crores of EBITDA. And for next year, we are talking all of this for next year. Next year we also have volume growth in Pitti Engineering as well as EBITDA per tonne growth. So, all these factors put together, we are estimating about 17% EBITDA margin on 1700 crores of top line. So, all the three factors put together, the merger of Pitti Castings, which will add about 20 crores on a FY24 basis in terms of EBITDA, the synergy benefits accrued in Bagadia Chaitra will add about 30 crores of EBITDA. Apart from that, the EBITDA per tonne in Pitti Engineering also we have guided at about 48,000 tonnes for FY25 on about 50,000 tonnes of sales. So, if you kind of total these on a consolidated basis, that takes us to about 290 crores - 295 crores of EBITDA which works out to about 17% or 1,700 crores of top line.

Karan Kandar: My question was more on the lines of percentage tonne or EBITDA per tonne for the Bagadia entity. Will it improve or will it get in line with the Pitti consol level or will it stay at a lower level like it currently is for FY23?

Akshay S. Pitti: So, it will continue to remain at a lower level. The right way to look at this would be if you take Pitti also, we have a blended EBITDA per tonne. It's not like all of our businesses are hitting that same EBITDA number. Some are punching way above the average and some are punching below the average. So, Bagadia's legacy business should yield about Rs.15,000 or Rs.18,000 per tonne EBITDA and then you have the synergy benefits on transportation which will bridge the gap of the movement from 17 odd crores in EBITDA in Bagadia to about 30 crores on a consol basis.

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

Pulkit Singhal: Just curious about couple of things. One is when I compare the working capital cycle of Pitti versus Bagadia, I see quite a bit of difference if you can help explain. So, for instance, Pitti has 64 days debtor days, whereas Bagadia is around 37. And similarly inventory days is 85 for Pitti, whereas Bagadia is at 25. So, can you explain what explains this difference?

Akshay S. Pitti: So, Pulkit, you have to see it in two ways. One, Bagadia doesn't have significant exports. Our exports actually require us to give longer credit times to customers, mainly due to the transit time. Secondly, the nature of business. They are predominantly into the pump and alternators business down south, wherein the credit cycles to the customers are around 35-40 days. So, that explains the difference in the debtor days. Coming to inventory, they use about two different grades or three different grades of raw material which are pretty standard in nature, we have a highly complex suite of products and we have to maintain inventories on multiple grades and types of raw materials in addition to that if you see we are also doing the machining and machine components which further adds to our requirement of inventories and the lead times that are therefore procuring these materials and actually processing them.

Pulkit Singhal: Okay, and to that extent, your debtor and inventory days going ahead next 2-3 years, I mean, because share of exports as it goes up and machining goes up, this will be on an increasing trend or is there any guidance you can give for just your business side?

Akshay S. Pitti: On the export side, if the ratio of export is to domestic alters dramatically in favor of exports, then it will mean a deterioration on debtor days. But if the exports go up and the domestic business in Pitti Engineering goes up more than the exports, in fact, you'll see a reduction in the debtor days. As far as the inventory is concerned, with this acquisition, we estimate that we'll be able to in fact, reduce our consolidated inventory days. Like I mentioned, one of the key factors on this acquisition is the better utilization of material. That's not only in terms of the utilization of the split raw material but also in the utilization of the inventory that Pitti carries. Because today I have to store those side strips to be used for my smaller laminations which are few when compared to my large. With this acquisition, we will be able to flow that material through to this entity for immediate consumption.

Pulkit Singhal: What is the consolidation inventory days you expect to happen for 1700 crores of sales that you are thinking about?

Akshay S. Pitti: It's too early to give you a definitive answer but it will be net positive only for us.

Pulkit Singhal: In terms of the sourcing benefits, there are two aspects to it. One is that you are able to utilize the sheets better because of using the smaller lamination. But I'm also trying to understand the scale benefits, which is there. So, as you are able to add, say, if you are able to source larger number of lamination or electrical steel, how much is that benefit that you get? Because you could have organically also grown at a certain rate of adding 8000 tonnes to 10,000 tonnes. So, do we have much of benefit on sourcing as you continue growing or adding 8000 tonnes to 10,000 tonnes?

Akshay S. Pitti: Our raw material pricing when compared to our peers and competitors is slightly better and that will not further improve as a result of the acquisition, but most certainly our better price will be applied to any entity that we own. Therefore, we should be directly able to positively impact the earnings of the entity acquired.

Pulkit Singhal: So, the question really is, if you are at say 40,000 tonnes and if you were to production or say 50,000 tonnes, and if you are going to say one lakh tonnes at some point, 2-3 years down the line, your current negotiation, how much better can you do on pricing? Is it like 0.5% - 1%? Or that's just too high in this for a commodity.

Akshay S. Pitti: See, I think based on where we already are, maybe 0.5% or so would be a fair assumption, it would be par for the course, but anything beyond that would be not possible given where we already are in terms of raw material price.

Pulkit Singhal: And lastly, in terms of the capacity of 18,000 tonnes and you mentioned that you can go to 16,000. When we look at Pitti itself, you always operated at 50%. How come in this case, we are about 90% utilization?

Akshay S. Pitti: So, if you have to see the type of product Pulkit, we do those larger products which require multiple operations through those notching process and the gang slotting process, there the number of changeovers become higher, and therefore your setup time increases. The number of setups and the setup time increases. This facility, like we said, is highly automated. They do most of the production through progressive tooling, wherein you put the coil and you take out the finished product directly from the machine, as you have seen in our factory. So, there the utilization percentages are always much, much higher. What we see as 80% is the average of all our different types of manufacturing processes. If you look at Pitti Engineering's own progressive line, the utilizable capacity is closer to 90%-95% in that, subject to not having too many models and tooling changes.

Pulkit Singhal: I understand. This acquisition is allowing you entry into the lower end segment, smaller segment. And I understand you are consolidating the industry as well. But if I just ask you 3-4 years out, I mean, are there any plans to get into higher technology segments, for instance, or looking in that direction of the value chain, whether it be in terms of new products or where the kind of work it evolves more R&D and technology? Is that something which you have as part of the plan?

Akshay S. Pitti: So, right now Pulkit, once we finish this, if you have to look at the other end of the spectrum, it would be to kind of give a ready to use stators and rotors to our clients. And that is something which we are actively working on, but we are cognizant of the fact that we don't want to load ourselves with too much debt. I think this acquisition, I think, is where I'm max comfortable. I will not want to go beyond this. But once we ease out our net debt position over the next couple of quarters, we'll look at those initiatives.

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

Prathamesh: Actually, my question was, you mentioned earlier that the acquisition has been funded with debt, right?

Akshay S. Pitti: Yes.

Prathamesh: So, as of latest balance sheet which is available with us, we had cash sitting on books of Rs. 114 crores. Why didn't we utilize some of that cash or maybe to pay existing debt or maybe to fund this acquisition?

Akshay S. Pitti: So, see, we have the cash on our books, but we also report the net debt numbers. If you look at the net debt, we were at about 300 crores of net debt. We had some capex that still needed to be completed in the current quarter plus the current quarter's earnings. And then the outflow that we make for this acquisition, so our net debt will balloon to 450 crore. After the acquisition also, we should be sitting at about 100 crores of cash available, but the net debt would have ballooned to 450 crore. And that's a number where I would like to kind of pause. I would not want to go beyond that number.

Prathamesh: So, post the acquisition completes, the focus would be on deleveraging the business, right? As you've mentioned.

Akshay S. Pitti: Correct. To reduce our net debt.

Prathamesh: And so you've mentioned by FY26 we would be net debt zero, debt zero?

Akshay S. Pitti: Net debt zero. I mean, it's the same thing. You'd have equivalent cash line, whatever debt you'd have, you'd have equivalent cash line.

Prathamesh: And any, would the Bagadia acquisition help us with entering into electrical vehicles, two-wheelers or other moped that we see around in the market?

Akshay S. Pitti: I don't think that would additionally help us. Having a location in Bangalore may enable us to cater to those industries in the southern market. As it is, we have a strong brand reputation in the country of laminations, and we are working with, as you know, many two-wheelers and four-wheelers companies on product development right now. If an opportunity presents itself for the southern Indian market, we can use that facility to better service those locations. That's about it.

Prathamesh: You mentioned in the contract, 7 lakhs tonnes per annum is required for smaller components? Laminations for smaller components?

Akshay S. Pitti: It's not smaller, it is all components other than automotive including motors, generators, pumps, railways, the whole industry size is about 700,000 tonnes other than automotive.

Prathamesh: How do you see it growing next 3 or 5 years?

Akshay S. Pitti: So, each end user segment goes at a different rate. But at the overall level, we are looking at the industry growing at about 10% to 15% CAGR.

Prathamesh: Volume CAGR, right?

Akshay S. Pitti: Yes, volume CAGR

Prathamesh: And how much would auto be there? How much auto would account for?

Akshay S. Pitti: See, we recently got into this whole automotive side of the business due to the push in EV. I don't have definitive data that I can today share with you. We are still trying to understand these numbers.

Moderator: Thank you. Next question is from the line of Ramachandra, an individual investor. Please go ahead.

Ramachandra: My question actually to you is, you know, when you consolidate the engineering, the casting business, and also now this recent acquisition, what do you expect the overall turnover to be by let's say financial year 25?

Akshay S. Pitti: So, for FY25, we are estimating about Rs. 1700 crores of top line.

Ramachandra: And if I heard you correctly earlier, you said the EBITDA margin is expected to be at around 17%. Is that correct?

Akshay S. Pitti: Yes, that's correct.

Ramachandra: And also, you also said that you are reorganizing your business between Aurangabad and the one in Bangalore, where I think from 4,000 tonnes you plan to move to Aurangabad and 6,000 to Bangalore that basically means that out of an 18,000 capacity, you would be doing about 16,000. Is that understanding correct?

Akshay S. Pitti: Yes, it is yes and no both because there will be certain equipment that you'd also have to move from Aurangabad to Bangalore to service that. So, the capacities are fungible between both locations, depending on the type of product. The way we are actually looking at it is that you have a consolidated capacity of 90,000 and you would be producing and selling roughly about 16,000 to 17,000 in Bangalore and the remaining in Aurangabad by reorganizing the equipment in the two locations to most optimally reduce our logistical costs.

Ramachandra: Just one more question. You are talking about an industry size of around 700,000 tonnes and you said, if you factor in the acquisition, you would get around 90,000. You also mentioned that you expect the industry to grow at around 10% to 15%. If I have to extrapolate that 2 years down the line, you are looking at about 1 million tonnes. Will it be 90,000 of

1 million or do you expect that 90,000 to also go up to maintain a market share of around 12% to 14%?

Akshay S. Pitti: So, see, from a mission and vision standpoint, we would like to firstly envision ourselves as about 20%-25% of the industry. That is our aspiration to become 25% of the industry, both organically and inorganically. The key lever to get to that number would be inorganic growth further in the future. So, let's see how that plays.

Ramachandra: I mean, fair enough. I think that you inspire a lot of confidence about when it comes to the future of this company. The point being you are also talking about you want to kind of manage your debt level at around Rs. 450 crores, yet you also want to expand beyond 90,000 tonnes. How is that going to play out? Because I expect in future if you are going to fund another good acquisition, would that be funded from internal accruals, or would you be then considering to add on a little bit more debt?

Akshay S. Pitti: Rs. 450 crores is actually a number that comes as 1.5x of forward cash generation. That is kind of the benchmarking that we're doing, 1.5x of forward EBITDA is what we are comfortable as a net debt number. So, today that number stands at Rs. 450 crores, tomorrow it can increase also. Secondly, we have very strong cash accrual happening in the company, most of ones we consolidate the Pitti Castings with the Pitti engineering, as well as this acquisition. We estimate about Rs. 200 odd crores of PAT plus debt for next financial year on a conservative estimate and of course, that number will grow in FY26. So, today, if you see our capacities, we are well placed in FY26 sales targets that the company has set itself. Now beyond that, we will look at investments in FY26 or FY27 targets. So, by then, automatically the net debt number would have come down due to the cash accrual and also our appetite on net debt would have gone up as a result of increased cash EBITDA per year. So, a combination of both of those would kind of enable us to go ahead with further acquisitions as and when the opportunity presents themselves.

Moderator: Thank you. Next question is from the line of Ankit Kothari, an Individual Investor. Please go ahead.

Ankit Kothari: Most of the questions have already been answered. I have just one question. You said there will be a huge cost you saving in the logistical cost. So, is there any number, how much the savings would be there in the Pitti's P&L, how much sales would be in the combined P&L?

Akshay S. Pitti: So, see, I can tell you the number on a combined basis. If you take the transportation cost between Aurangabad and Bangalore, we should be able to save roughly about Rs. 3000 a tonne and we plan to at the gross level relocate about 10,000 tonnes. So, you can kind of get an idea of the logistical cost saving.

Ankit Kothari: And you said there will be Aurangabad facility, the scrap would be used as a raw material for the Bangalore facility. So, how much savings would be there, whatever you will realize from the sale of the scrap and if a bank of facility has to buy the same as in raw material. So, any number and if it has been worked on?

Akshay S. Pitti: See it's not exactly scrap it's basically what we classify as by-product of our splitting process. So, when we take the full coil which is about 1200 millimeters in width we have to utilize that full coil to the most optimum level. So, today if you see we sell about 1,500 tonnes of byproduct slit coils, as we call them. So, those byproduct slit coils, instead of being sold in the market at a lower cost, would directly be used as raw material in our target company, which is the Bagadia Chaitra. And the cost difference there would be about 7,000 to 8,000 rupees a tonne. So, that around gets you about Rs. 10 odd crores worth of money. So, if you see three crores from the logistical and Rs. 10 odd crores from this, added to this Rs. 17 crores of EBITDA is basically the ballpark Rs. 30 crores that we had kind of guided to.

Ankit Kothari: That would be in the combined P&L of both entities?

Akshay S. Pitti: Yes, so the benefit would obviously incur once you consolidate both the entities.

Ankit Kothari: So, we are not looking at these as two different companies, right?

Akshay S. Pitti: This is going to become a wholly owned subsidiary. So, at the end of the day, all the benefits on a console basis. Some benefit will accrue on that legal entities P&L, some would incur on our P&L. And see eventually our view would be again subject to board approvals and members approvals, consolidate that company into the list. You would not want to have multiple legal entities operating. It is much cleaner to have one single corporate structure.

Moderator: I would now like to thank on behalf of Pitti Engineering Limited for joining the call. For any further information or visiting the plant, please be in touch with Mr. Rama Naidu from Intellect IR on 9920209623. On behalf of Pitti Engineering Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

(This document has been edited to improve readability)