ONLY THE

FITTEST

SURVIVE.

Pitti Laminations Limited

Annual Report FY 2013-14

Forward-looking statement In this annual report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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It was the worst of years. It was the best of years.

On the face of it, Pitti Laminations reported a 19.97 per cent decline in gross revenues, 57.29 per cent erosion in profit after tax, and 35.29 per cent lower exports in FY 2013-14.

But explore below the surface and you find a different picture. A cash profit of ₹12.96 crore. A 172.22 per cent growth in export revenues. A 35.90 per cent sequential revenue growth in the last quarter of FY 2013-14 compared to Q3.

Emphasising a singular point. That only the fittest survive.

These are some of the capabilities that make Pitti Laminations special:

- We are India's largest commercial manufacturer of laminations used in electrical motors across downstream sectors.
- We are one of the most competitive lamination manufacturers in the world.
- We are a dependable back-end lamination supplier to some of the largest MNCs.
- We are possibly the only extensively integrated - tooling, lamination, castings and machining – lamination company in the world.

Pitti Laminations manufactures the following products: electrical steel laminations, die cast rotors and assemblies, stator core assemblies, rotor core assemblies, pole assemblies as well as casting and machine components.

Business

Pitti Laminations is engaged in the manufacture of value-added machined electrical steel laminations that find irreplaceable application in all types of motors (traction, industrial and induction). Pitti Laminations is promoted by Shri Sharad B Pitti (Chairman and Managing Director) and Shri Akshay S Pitti (Vice-Chairman and Managing Director).

Product mix

Pitti Laminations manufactures products, which include electrical steel laminations, die cast rotors and assemblies, stator core assemblies, rotor core assemblies, pole assemblies as well as casting and machine components.

Competitive advantage

Pitti Laminations is the only end-to-end product and service provider in its segment. The Company possesses India's only indigenously developed tool room with a portfolio of over 3,400 tools. Extensively integrated capacities of laminations, castings, machining and tooling leading to cost advantages and customer convenience. The Company is a market leader in the special purpose motors segment in India.

The Company is also one of few global suppliers with tooling, laminations, casting and machining capabilities under one roof. The Company was the first commercial manufacturer of laminations in India, certified by Bureau Veritas Quality International UK with ISO 9002.

Location

The Company is headquartered in Hyderabad and all its plants – laminations, foundry and machining centres – are located within a 50-km radius around the city. The Company possesses an installed product manufacturing capacity of 32,000 TPA across two plants and a machined casting capacity of 3,000 per annum. The Company aims to partially shift its manufacturing capacity to Pune, Maharashtra, by the second half of FY 2014-15.

Performance

Pitti Laminations has reported a FY 2010-14 revenue CAGR of 13%. The Company has reported a five-year average EBIDTA margin of around 14%. The Company's credit ratings were reaffirmed with a BBB+ for its long-term bank facilities and an A2 for its short-term bank facilities by CARE in July 2014.

Equity

Pitti Laminations is listed on the BSE and NSE; its market capitalisation stood at ₹82.63 crores as on 30th June 2014.

Customers

The Company services the needs of diverse customers in the following sectors – power generation, transportation, industrial motors, locomotives, aerospace, automobile, earth moving & mining, oil & gas and infrastructure. The Company enjoys longstanding relationships with prominent customers like Crompton Greaves, Siemens and the GE Group. Some of its other prominent customers comprise ABB, Alstom, Andritz Hydro, BHEL, Cummins India Limited, Emerson Electric Company, Larsen & Toubro, ReGen Powertech, T D Power Systems Limited, Caterpillar, AVTEC Limited, Enercon GmbH and Voith Hydro. India accounted for 68 per cent of the Company's volumes towards the close of FY 2013-14. The Company exports its products to many countries including the US, Germany, Australia, Brazil, Canada, Mexico and others.

Key financial highlights

Metric	FY 2012-13	FY 2013-14
Operating income	₹310.36 cr	₹247.83 cr
Total assets	₹322.42 cr	₹308.51 cr
Return on capital employed (ROCE)	23.66 %	10.98 %
Profit after tax	₹9.85 cr	₹4.21 cr
Earnings per share (basic)	₹7.30 cr	₹3.12 cr
Dividend per share	₹1	₹1*

*Recommended by the Board of Directors

Strategic overview by the Chairman

"We strengthened our business in one of our most challenging years"

At Pitti Laminations, we encountered one of our most challenging years in FY 2013-14 and I am proud to state that we utilised the opportunity to strengthen our business model.

We reported a 19.97 per cent decline in revenues to ₹264.31 crore and a 57.29 per cent drop in profit after tax to ₹4.21 crore during the year under review. However, the shareholders need to appraise our performance in the light of the unavoidable forex loss of ₹9.07 crore, which was beyond the Company's control.

This market-contrarian performance was the result of our intrinsic competitiveness and ability to re-strategise with speed in a dynamic environment. While these initiatives have been explained in the later parts of this report, I must assure shareholders that at Pitti Laminations, the goalpost is always moving and that we are driven to moderate costs and enhance our viability at all times.

Economic rebound

There are a number of reasons why we are optimistic of our prospects. Primarily, permit me to state that if the Company could have protected its profitability after an unprecedented decline in exports in one of the slowest years of domestic economic growth with the overhang of an unprecedented forex loss, then prospects can only get better. Going ahead, we are optimistic that the new Indian Government will engage in whatever it takes to revive the economy through a thrust on capital goods, power and transportation (especially railways) sectors, which are not only under-penetrated but where significant reinvestment is expected. With India's progress, our products will find increased uses. Pitti Laminations is attractively positioned to address this emerging demand; our Company is a preferred vendor for customers across our downstream sectors, a fact vindicated by our enduring relationships, growing orders and rising customer wallet share. Besides, international sales began to pick up during the last quarter of the year under review. This provides me with the optimism that the worst is over for our Company and we face better days ahead.

Pitti's competitive positioning

There are a number of reasons why I am optimistic of Pitti's ability to report profitable year-on-year growth from this point onwards.

One, the Company expects to ride the national economic rebound with a wider product mix that comprises smaller laminations addressing consumer

we have strengthened our India focus; our India-derived revenues, which were 40 per cent two years ago, increased to 61 per cent in FY 2013-14.

motors from a point when they did not figure in our product mix to nearly 6 per cent of our revenues in the current financial year. This extension of our product mix will leverage the use of standard length raw material as opposed to expensive cut-to-size resources, enhancing our profitability.

Two, there has been a paradigm shift within our raw material space, whereby for the first time ever India has emerged as a surplus producer of electrical steel (our principal raw material). This transition has helped evolve our procurement lead time from three to six months to just three to four weeks. Consequently, what was often seen as a constraint to our ability to meet emerging demand is now likely to become an enabler, the full benefit of which is likely to be felt by the third quarter of the current financial year.

Three, we have strengthened our domestic focus; our India-based revenues, which were 40 per cent two years ago, increased to 61 per cent in FY 2013-14. We achieved this by adding new customers and enhancing our market share.

Four, we expect to shift some of our installed capacity to Pune, Maharashtra, which will save us inward raw material movement costs and related taxes, strengthening our margins and competitiveness.

Outlook

A couple of years ago, I had predicted a revenue guidance of ₹1,000 crore by 2015-16. Given the unforeseen realities that have emerged in the interim, I intend to state that while we continue to be optimistic of achieving this target, there could be a two-year delay.

We expect to realise this ambitious revenue target by increasing our electrical laminations production and extending to opportunities beyond laminations. While addressing these new opportunities, we expect to leverage our understanding of engineering and metallics to create value-accretive products.

We expect that this strategy, leveraging our knowledge of products, customers and locations, will enhance value in the hands of our stakeholders over the coming years.

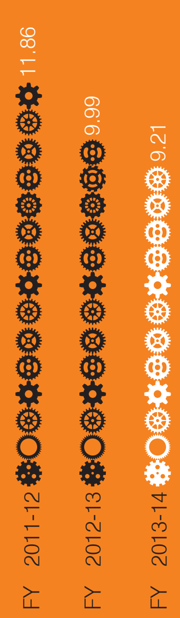
Sharad B Pitti,
Chairman and Managing Director

The power of possibilities

Revenue (gross) (₹ crore)

Operating profit (₹ crore)

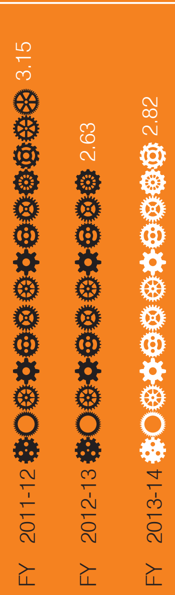
Operating profit marging (%)



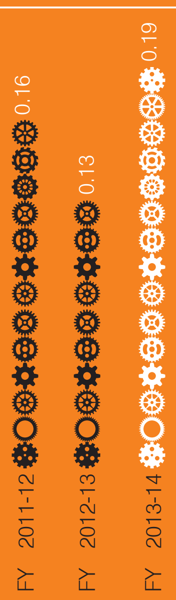
Cash profit (₹ crore)

Post-tax profit (₹ crore)

Interest cover (₹ crore)

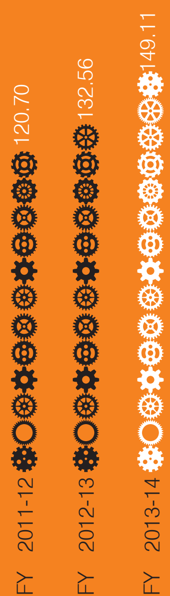


Long-term debt-equity ratio



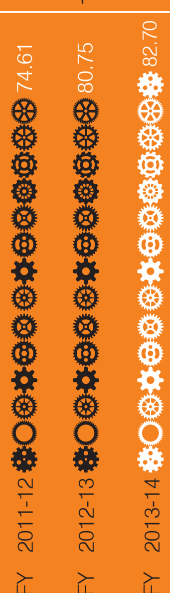
RoCE (average) (%)

Gross block (₹ crore)

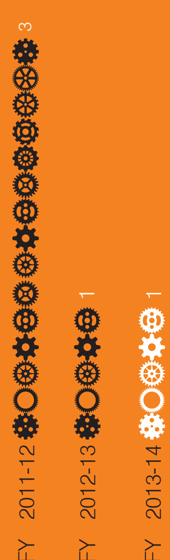


EPS (basic) (₹)

Book value per share (₹)



Dividend per share (₹)



OUR PERFORMANCE IN FY 2013-14

- Overall revenues declined by 19.97%; EBIDTA declined by 19.94%
- Domestic volumes declined by 17.7% to 10,747 MT; domestic sales declined by 5.7% to ₹161.34 crore
- Export volumes declined by 35.1% to 4,308 MT; export sales declined by 35.3% to ₹102.97 crore
- Raw material cost as a proportion of revenues declined from 65% in FY 2012-13 to 63%
- Overall debt declined from ₹144.75 crore in FY 2012-13 to ₹115.24 crore
- Trade receivables declined from ₹88.82 crore to ₹64.22 crore; receivables (number of days of turnover equivalent) declined from 98 days to 89 days
- Forex loss stood at ₹9.07 crore (₹1.29 crore in the previous year)
- Cash and cash equivalents increased from ₹6.31 crore in FY 2012-13 to ₹9.47 crore

OUR PERFORMANCE IN THE LAST QUARTER OF FY 2013-14

- Volumes increased by 25% over the preceding quarter, largely driven by a rebound in exports (from ₹10.75 crore in the third quarter of FY 2013-14 to ₹29.26 crore).
- Cost of raw materials as a percentage of sales declined following increased synergies in the manufacture of consumer motors and other value engineering initiatives.
- Financial expenses declined by 25.3% and total debt declined by 20% (to ₹115.24 crore) compared to the corresponding quarter in the previous year following debt repayment and optimal working capital utilisation; debt-equity ratio declined from 1.33x (FY 2012-13) to 1.03x (FY 2013-14).
- Interest coverage ratio improved from 1.3x in the third quarter of FY 2013-14 to 1.59x.
- Forex gain was ₹1.35 crore (compared to a loss of ₹9.07 crore for the full year FY 2013-14).
- Cash and cash equivalents increased from ₹6.31 crore in the last quarter of FY 2012-13 to ₹9.47 crore.

In a slowdown, most companies would have focused on getting the most out of their existing locations.

At Pitti, we selected to move to a new one.

During a sluggish FY 2013-14, the big challenge within the country's electrical lamination sector was to cap production costs with the objective to remain viable.

At Pitti, we embarked on the unexpected – shifting a part of our capacity to a more strategic location. This contrarian initiative was derived from a need to extend from one location (Hyderabad) to another (Pune) with the objective to strengthen the Company's competitive advantage.

At Pitti, we are optimistic that this new location will enable us to get closer to our raw material vendors and customers, helping us reduce transportation logistics. In turn, this saving is expected to enhance the Company's margins in a competitive, volume-driven business. Besides, a majority of the Company's customers are located in Pune, Pitti is expected to shrink service turnaround and enhance customer delight.

This shift, effective from October 2014, is expected to strengthen revenues and margins, enhancing the Company's competitiveness.