

Continued Growth Momentum, Acquisitions Start Contributing; Maintain BUY
Est. Vs. Actual for Q1FY25: Revenue – **BROADLY INLINE**; EBITDA – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q1FY25 Result
FY25E/FY26E: Revenue 0%/0%; EBITDA 0%/0%; PAT (Abs.) 0%/0%

Recommendation Rationale

- **Strong volume growth during the quarter:** Volumes of rotating electrical equipment (Laminations and Assemblies) in existing business (PEL excluding BCIPL) increased by over 24% YoY during the quarter. While machining components volumes declined, blended EBITDA/Tonne on a standalone basis increased by 2.77% YoY to Rs 43,785. BCIPL volumes increased by 13.2% YoY. Even though EBITDA for BCIPL was impacted due to certain one-time factors, the management remains positive about reaching targeted EBITDA levels. The company's capacity utilisation increased during the quarter reaching close to 90% levels.
- **Acquisitions to complement organic growth:** PEL had previously completed the acquisition of Bagadia Chaitra Inds Pvt. Ltd. (BCIPL), expanding its footprint in South India. During the second quarter, it completed the acquisition of Dakshin Foundry Private Ltd. (DFPL) and is expected to complete the previously announced merger with Pitti Castings Pvt. Ltd. (PCL). The businesses/target customers of the acquired entities complement PELs current offerings and the company expects strong revenue growth and cost savings as the consolidation takes place.
- **Operating leverage to kickin:** Despite one-off expenses related to acquisitions, the company's EBITDA margins improved on a YoY basis due to operating leverage as the volumes grew substantially. The management expects some decline in other expenses going ahead and is hopeful of surpassing annual targeted volumes of 63000 Tonnes (consolidated level). Additionally, the company continues to focus on improving its product mix and is targeting EBITDA/tonne to increase to Rs 18,000/tonne in the BCIPL business. The recently acquired DFPL already has superior margins compared to existing businesses.

Sector Outlook: Positive

Company Outlook & Guidance: The management mentioned that there is good demand visibility across almost all the end markets and the company is on track to complete capacity expansion by September 2024. Given the growth trajectory in the current quarter and demand visibility from customers, the management is hopeful of surpassing its annual volume target of 48,000 tonnes at the standalone level and 63,000 tonnes at the consolidated level in FY25. The company has previously mentioned that it aims to increase its market share to around 25% in the next five years, which, if achieved will lead to 3x volume growth. Rising volumes, coupled with cost synergies post-completion of acquisitions are expected to boost the margins.

Current Valuation: 28x FY26EPS (Changed from 25x FY26EPS)
Current TP: Rs1,572/share (Earlier TP: 1,403/share)
Recommendation: We maintain our BUY recommendation on the stock.
Outlook

The company has been significantly increasing volumes in existing operations, and recent acquisitions appear complementary to its current business. It is also focusing on boosting the share of value-added products. We expect the company to sustain its growth momentum, driven by rising international demand and the addition of new businesses. While value-added products and exports generate higher margins, increasing volumes and capacity utilization are likely to enhance operating leverage (with fixed costs remaining broadly unchanged), thereby driving margins higher.

Valuation & Recommendation

We revised our estimates following the concall conducted by the company regarding the acquisition of DFPL to align with management's outlook and the expected contribution from the acquired/merged businesses. Although the newer businesses operate at comparatively lower margins, they are likely to be profitable and cash flow accretive starting FY25. We have accordingly re-rated the stock at 28x its FY26 EPS (up from 25x). Our per-share analysis, including EPS calculations, accounts for the potential impact of additional shares expected to be issued post-completion of the Pitti Castings merger. **We maintain our BUY rating on the stock** with a revised target price of Rs 1,572/share, implying an upside of 19% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	383	32.1%	16.7%	393	-2.71%
EBITDA	60	39.0%	-24.7%	52	16.4%
EBITDA Margin	15.75%	79bps	-867bps	13.16%	259bps
Net Profit	21	47.1%	-49.1%	18	12.9%
EPS (Rs)	6.4	47.1%	-49.1%	5.7	12.9%

Source: Company, Axis Securities Research

 (CMP as of 19th August, 2024)

CMP (Rs)	1321
Upside /Downside (%)	19%
High/Low (Rs)	1382/490
Market cap (Cr)	4742
Avg. daily vol. (6m)Shrs.	154,201
No. of shares (Cr)	3.2

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	59.3	59.3	59.3
FIs	0.2	0.5	0.8
MFs / UTI	1.9	1.2	1.1
Banks / FIs	0.0	0.0	0.0
Others	38.6	39.0	38.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,202	2,040	2,244
EBITDA	178	291	341
Net Profit	90	152	182
EPS (Rs)	28.1	46.1	56.1
PER (x)	32	26	21
EV/ EBITDA (x)	14.8	16	13
P/BV (x)	7	7	6
ROE (%)	24.0	32.8	29.7

Change in Estimates (%)

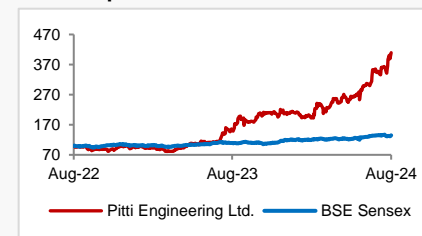
Y/E Mar	FY25E	FY26E
Revenue	0%	0%
EBITDA	0%	0%
PAT	0%	0%

ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.
Sector Average	N.A.

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities Research

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Financial Performance

- Pitti Engineering's Q1FY25 revenue reached Rs 383 Cr, reflecting a 32.1% YoY and 16.7% QoQ increase, which is broadly in line with expectations. EBITDA exceeded estimates by 16.42%, totalling Rs 60 Cr, up 39% YoY but down 24.7% QoQ. The EBITDA decline was anticipated due to the higher concentration of other income in Q4. EBITDA margin stood at 15.75%, surpassing the estimate of 13.16%, with a 79 bps YoY improvement and an 867 bps QoQ decline. The company's PAT was Rs 21 Cr, up 47.1% YoY but down 49.1% QoQ, beating the estimate by 12.92%.

Key Highlights from Concall

- Company Performance:** Standalone revenue increased by 21% to Rs 351 Cr, while EBITDA grew by 28%. EBITDA per tonne rose by approximately 3% to Rs 40,359. The company achieved its highest-ever volumes, revenue, and EBITDA during the quarter. One-time expenses related to the BC IPL acquisition amounted to Rs 2.18 Cr. The increase in EBITDA per tonne was driven by operating leverage and improved blended realization per tonne.
- Acquisitions:** The company completed the acquisition of Bagadia Chaitra Industries Private Limited (BCIPL) on May 6, 2024, with financials consolidated from that date on a pro-rata basis. The EBITDA per tonne for BC IPL was affected by one-time expenses related to inventory accounting and valuation, as well as the pro-rata consolidation of revenue. Management expressed confidence in achieving an EBITDA per tonne of Rs 18,000 over the next few quarters. The recently completed acquisition of Dakshin Foundry Private Ltd. (DFPL) will be consolidated starting in the second quarter.
- New Capacities:** Installation of new capacities at Aurangabad is in progress and on track for completion in September 2024. The company has added 2.5 Lc sq. ft. of built-up area, allowing room for further expansion. Once the ongoing capacity addition is complete, total capacities will reach 90,000 tonnes per annum. Additional machining capacity expansion will be undertaken based on revenue visibility to ensure optimum utilization.
- Pitti Castings (PCL) Merger:** NCLT approval for the merger is expected soon and is likely to be completed during the second quarter.
- Outlook:** The management indicated that the strong performance in Q1 and continued demand from customers suggest a positive outlook for the remainder of the year. They expect to surpass the annual target of 48,000 tonnes on a standalone basis and 63,000 tonnes on a consolidated basis. Some of the one-time expenses are anticipated to decrease over the next few quarters. Improved operating leverage and consolidation benefits are expected to support margin improvements throughout the year.
- Net Debt and Working Capital:** Net debt stood at Rs 525 Cr as of June 30, 2024, but has decreased to approximately Rs 300 Cr as of August 1, following the completion of fundraising through QIP and the DFPL acquisition. The management anticipates that the proceeds will strengthen the balance sheet and support future growth. They do not plan to pursue any new acquisitions during FY25 and will focus on business consolidation. Inventory is around Rs 270 Cr, with inventory days of approximately 70, DSO at 60 days, and DPO at 70 days. Working capital has decreased to about 63 days.

Change in Estimates

(Rs Cr)

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	2,040	2,244	2,040	2,244	0%	0%
EBITDA	322	372	322	372	0%	0%
PAT	152	182	152	182	0%	0%

Source: Company, Axis Securities Research

Note: The estimates were revised on 1st August 2024 after the conference call conducted by the company post the acquisition of DFPL.

Segmental Revenue

(Rs Cr)

	FY23	FY24				FY25
	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
End User Application revenue Breakup	248	290	290	294	328	383
Traction Motor & Railway Components	77	93	110	146	115	116
Special Purpose Motors	21	27	26	20	19	24
Renewable Energy	7	5	15	11	14	20
Power Generation	36	45	44	34	46	63
Mining, Oil & Gas	15	7	12	21	27	24
Industrial & Commercial	33	43	36	38	35	40
Data Centre	8	6	3	4	6	10
Automotive	2	1	1	1	2	3
Appliances & Consumer	0	0	1	2	2	2
Pumps	0	0	0	0	0	9
Others	50	63	43	17	62	72

Source: Company, Axis Securities Research

Results Review (Consolidated)

(RsCr)

Rs Cr	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% YoY	% QoQ
Revenue	289.8	290.3	293.6	327.9	382.8	32.1%	16.7%
Gross profit	87.8	93.5	100.3	114.1	135.1	53.9%	18.5%
Gross Margin (%)	30.3%	32.2%	34.1%	34.8%	35.3%	499.4	51.6
Employee Cost	22.9	25.9	26.7	31.7	36.6	60.1%	15.3%
Other Expenses	22.5	25.0	29.5	33.7	42.2	87.2%	25.2%
Operating Profit	42.4	42.6	44.1	48.6	56.4	32.8%	15.9%
OPM (%)	14.6%	14.7%	15.0%	14.8%	14.7%	8.1	-11.3
Other Income	0.9	12.6	3.3	31.4	3.9	324.3%	-87.5%
EBITDA	43.4	55.1	47.4	80.1	60.3	39.0%	-24.7%
EBITDA Margin (%)	15.0%	19.0%	16.1%	24.4%	15.7%	78.7	-867.5
Interest Cost	11.6	11.2	13.5	13.6	17.1	47.1%	25.2%
Depreciation	13.2	12.3	14.6	14.0	15.4	17.1%	9.9%
PBT	18.6	31.6	19.3	52.4	27.8	49.5%	-47.0%
Tax	4.6	9.1	5.9	12.1	7.2	56.7%	-40.0%
Adj PAT	14.0	22.6	13.3	40.4	20.5	47.1%	-49.1%
Adj EPS	4.4	7.0	4.2	12.6	6.4	47.1%	-49.1%

Source: Company, Axis Securities Research

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E
Net Sales	1,100	1,202	2,040	2,244
Growth (%)	15.3	9.2	69.8	10.0
Other Operating Income	0	0	0	0
Total Income	1,100	1,202	2,040	2,244
Raw Material Expense	782	806	1,267	1,280
Employee Expense	88	108	178	189
Power & Fuel Expenses	0	0	0	0
Other Operating Expense	78	110	306	434
Operating Profit	151	178	291	341
Growth (%)	15	17	64	17
Operating Margin (%)	13.8	14.8	14.3	15.2
Other Income	18	48	31	31
EBITDA	169	226	322	372
Growth (%)	13.5	33.5	42.4	15.6
EBITDA Margin (%)	15.4	18.8	15.8	16.6
Depreciation	45	54	58	69
EBIT	125	172	264	303
Interest Cost	45	50	59	56
Profit Before Tax	80	122	205	247
Tax	21	32	54	66
Profit After Tax	59	90	152	182
Growth (%)	13.3	53.3	68.0	20.0
Share of Profit of an associate/OCI	0	0	0	0
Net Profit (Adjusted)	59	90	152	182
EPS	18	28	46	56

Source: company, Axis Securities Research

Balance Sheet
(Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS				
Equity Share Capital	16	16	18	18
Reserves & Surplus	318	400	552	740
Net Worth	334	416	570	757
Borrowings	290	537	636	481
Other Liabilities	354	377	556	613
Total Liabilities	644	914	1192	1094
Total Equity & Liability	978	1330	1762	1851
APPLICATION OF FUNDS				
Cash & Bank Balance	65	109	142	176
Investments	15	15	15	15
Advances	33	69	69	69
Fixed & Other Assets	865	1136	1536	1590
Total Assets	978	1330	1762	1851

Source: company, Axis Securities Research

Cash Flow
(Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E
PBT	80	122	215	262
Depreciation & amortization	45	54	58	69
Interest expense	45	50	59	56
Interest / Dividend Recd	0	-3	-31	-31
Other Adjustments	1	0	0	0
(Inc)/Dec in working capital	88	-161	-227	-2
Tax paid	-35	-10	-54	-66
CF from operating activities	223	52	20	289
Capital expenditure	-105	-238	-50	-65
(Purchase) / Sale of Investments	0	0	0	0
Income from investments and others	1	2	31	31
CF from investing activities	-104	-236	-19	-34
Inc/(Dec) in share capital	0	0	0	0
Inc/(Dec) in debt	-33	247	99	-155
Dividends & Interest paid	-54	-53	-68	-65
Other Financial Activities	-1	5	0	0
CF from financing activities	-87	198	31	-220
Net cash flow	32	15	32	35
Opening balance	35	65	109	142
Other Bank Balance	-2	29	0	0
Closing balance	65	109	142	176

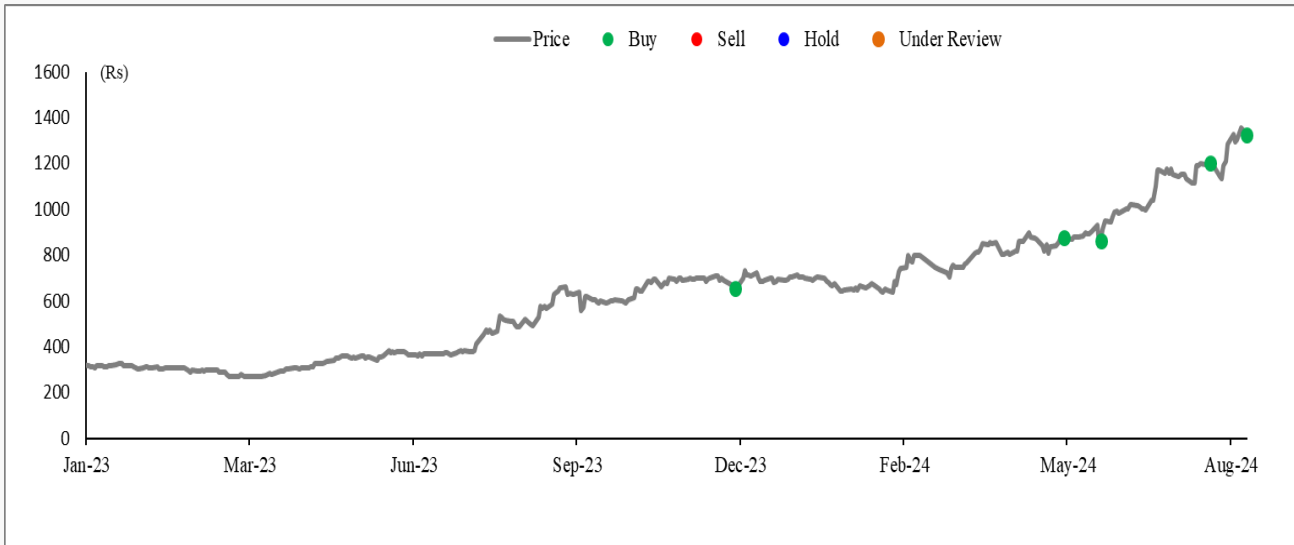
Source: company, Axis Securities Research

Ratio Analysis
(x) / (%)

Y/E Mar	FY23	FY24	FY25E	FY26E
Per share data				
No. of shares (Cr)	3.2	3.2	3.5	3.5
BVPS (INR)	104.2	129.8	162.5	216.0
CEPS (INR)	32.3	45.0	62.6	75.8
DPS (INR)	2.7	2.7	2.7	2.7
Financial Ratios				
RoE (%)	19.0	24.0	32.8	29.7
RoCE (%)	20.4	21.6	25.3	26.0
Debt/Equity (x)	0.9	1.3	1.1	0.6
EBIT/Interest (x)	2.8	3.4	4.5	5.4
Turnover Ratios				
Asset turnover (x)	1.7	1.3	1.7	1.8
Sales/Net FA (x)	2.8	2.2	3.8	4.2
Working capital/Sales (x)	0.1	0.2	0.3	0.2
Receivable days	59.4	63.0	59.0	57.0
Inventory days	110.3	121.5	113.5	111.5
Payable days	109.0	104.8	108.8	110.8
Working capital days	60.6	79.7	63.7	57.7
Liquidity Ratios				
Current ratio (x)	1.7	2.1	2.2	2.1
Quick ratio (x)	1.0	1.4	1.2	1.2
Interest cover (x)	3.3	3.9	4.7	5.8
Net debt/Equity (x)	0.7	1.0	0.9	0.4
Valuation (x)				
PE	73.1	47.4	28.7	23.5
PEG (x) YoY growth	5.4	0.9	0.4	1.1
P/BV	12.7	10.2	8.1	6.1
EV/EBITDA	29.5	26.3	17.0	13.8
EV/Sales	4.0	3.9	2.5	2.2
EV/EBIT	35.9	27.2	18.7	15.5

Source: company, Axis Securities Research

Pitti Engineering Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
01-Dec-23	BUY	915	Initiating Coverage
18-May-24	BUY	1,145	Result Update
07-Jun-24	BUY	1,180	Company Update
01-Aug-24	BUY	1,403	Company Update
20-Aug-24	BUY	1,572	Result Update

Source: Axis Securities Research

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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