ArihantCapital
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Initiating Coverage
29th Apr, 2022

Pitti Engineering Ltd

Capacity expansion to drive the growth

CMP: INR 307

Rating: BUY

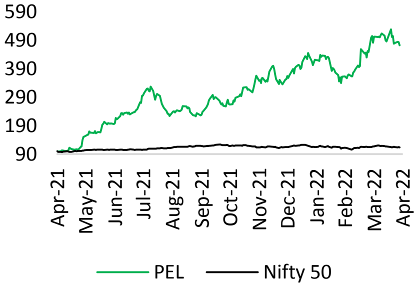
Target Price: INR 438

Stock Info	
BSE	513519
NSE	PITTIENG
Bloomberg	PITTIENG:IN
Reuters	PITE.NS
Sector	Capital Goods
Face Value (Rs)	5
Equity Capital (Rs cr)	16
Mkt Cap (Rs cr)	981
52w H/L (INR)	344 / 63
Avg Yearly Volume (in 000')	323.9

Shareholding Pattern % *(As on Mar, 2022)*	
Promoters	59.28
DII	0.26
FII	0.02
Public & Others	40.43

Stock Performance (%)	3m	6m	12m
PEL	12.2	68.2	372.7
NIFTY	-0.4	-6.4	14.4

PEL vs Nifty



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Pitti Engineering Ltd (PEL) was established in 1983, headquartered in Hyderabad, Telangana. PEL is engaged in manufacturing of Electrical steel laminations, Motor cores, Sub assemblies, Die-Cast rotors, Press Tools and machining of metal components. The company has three manufacturing plants which are strategically located in Hyderabad and Aurangabad. The plants has sheet metal capacity of 41,000 metric tonnes per annum (MTPA) and 3,77,196 machining hours per annum as on Q3FY22. The company is currently undergoing INR 270cr capex to increase the capacity to meet industry demands. The company exports the products to over 12 countries and exports revenue contributed 34% of sales in Q3FY22. The company has partnered with customers and supplying the components as per their requirements. The order book stood at INR 987cr as on Q3FY22.

Investment Rationale

Strong domestic demand would reduce working capital cycle: In Q3FY22, domestic and export mix were at 66% and 34% respectively. We believe as per discussion with management the revenue visibility of INR 1,700 to INR 1,800cr topline over the medium term. We believe the company would take advantage of strong domestic demand and increase the domestic revenue share to 80% and maintain the exports revenue share to 20% going forward. The company focuses on domestic business which leads to better realization as compared to exports. The concentration on domestic business would reduce the working capital cycle going forward.

Capacity expansion to drive business growth: PEL's current capacity is 41,000 metric tonnes per annum (MTPA) and utilization rate of 83.9% as on Q3FY22. PEL is in progress with a capex of INR 270cr in Aurangabad plant which will be expected to complete by end of FY24E. After the capex, the installed capacity will be around 72,000 MTPA and estimated to utilize capacity which is around 57,600 MTPA with utilization rate of 80%. The increase in capacity addition will lead to a better position to serve industry demands which drives business growth for the company.

Change in products mix leads to better realization: In FY17, Blended sales and EBITDA per tonne realization were INR 1,65,896 and INR 17,861 respectively. In the last 5 years, PEL has added assembled and value added products which had resulted in change in product mix. In FY21, Blended sales and EBITDA per tonne realization were at INR 2,43,524 and INR 36,197 respectively. In Q3FY22, the realization had further improved; Blended sales and EBITDA per tonne realization were at INR 3,10,036 and INR 40,126 respectively. We believe EBITDA per tonne will improve further to INR 42,000 to INR 44,000 going forward.

Competitive advantage – Entry Barriers for new entrants: In 30 years of journey, PEL has developed more than 5,000 different products to its clients. The new entrants need to develop all the 5,000 products to compete with Pitti Engineering Ltd which takes more time. PEL has 5,000 products and every year, gradually adding products in products library as per the customer requirements.

Outlook & Valuation: **PEL has focused on capacity expansion, order execution and getting new orders from customers. The company have integrated manufacturing plants with cutting edge technology, differentiated product offering, marquee clients, global supply chain, diversified end industries with higher demand would lead the growth going forward. We have used a DCF Model to value Pitti Engineering Ltd, it has healthy and consistent cash flow generation over the forecasted period. We have discounted the cash flows using WACC and value the company at INR 438 per share. We initiate coverage with a "BUY" rating at a Target Price of INR 438 per share; an upside of 42.6%.**

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Investment Rationale

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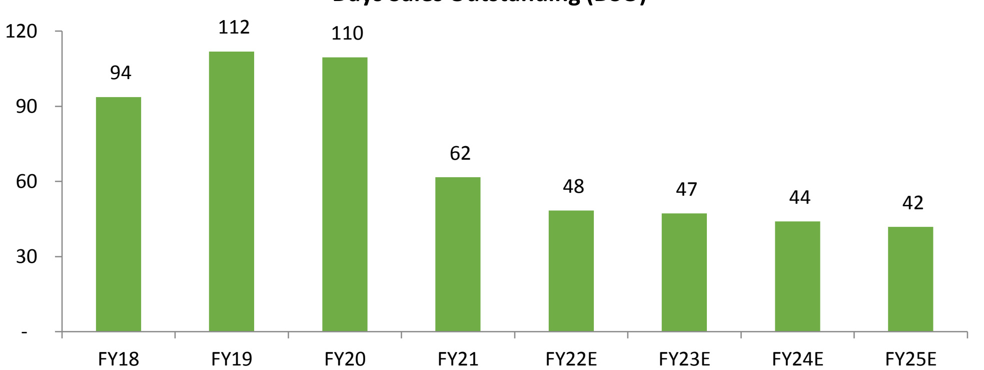
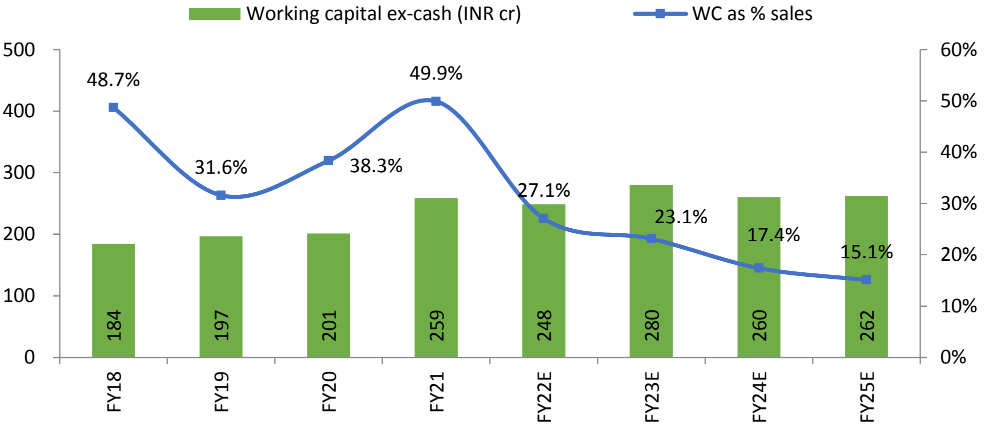
The working capital cycle is smaller for domestic business and longer for exports. In domestic business, the company has delivers products within 30 to 90 days based on complexity of the products and takes less time for cash collections for goods sold. For exports, it takes more time to send goods to other countries and takes more time for cash collections for goods sold. As per discussion with management, we believe that the company would reduce the export revenue exposure to 20% of total revenue which will further reduce the Day Sales Outstanding (DSO). The reduction in export revenue exposure which resulted in a blended DSO to reduce less than 50 days going forward. The reduction in DSO would reduce the working capital cycle going forward.

The company focuses on reducing the blended debtor days (DSO) by reducing the credit offer and passing the benefit to OEMs in selling prices. The reduction of selling prices could impact INR 1,000 to INR 1,200 EBITDA per tonne. If a company offers products on credit basis, the company would add interest cost while pricing. Basically, the price reduction is to avoid the interest cost from customers and achieve faster collections.

for more details about working capital cycle



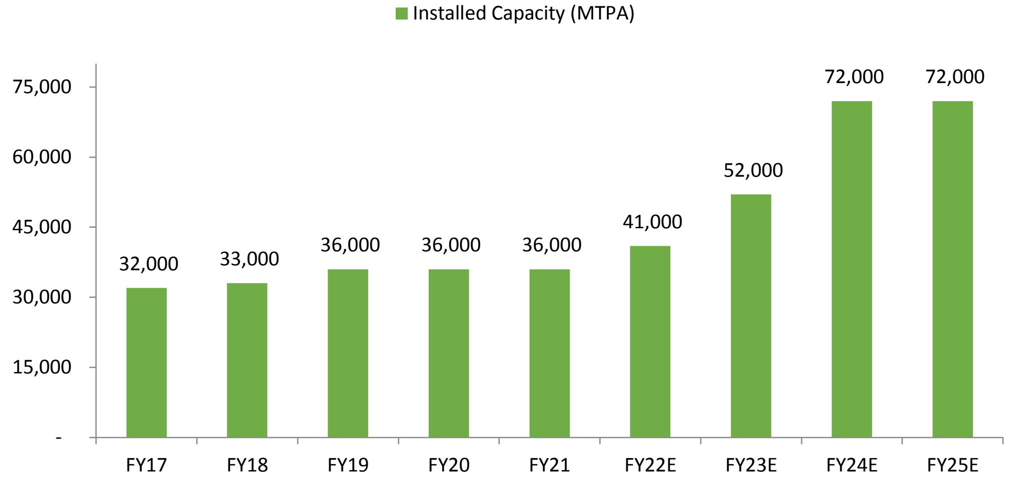


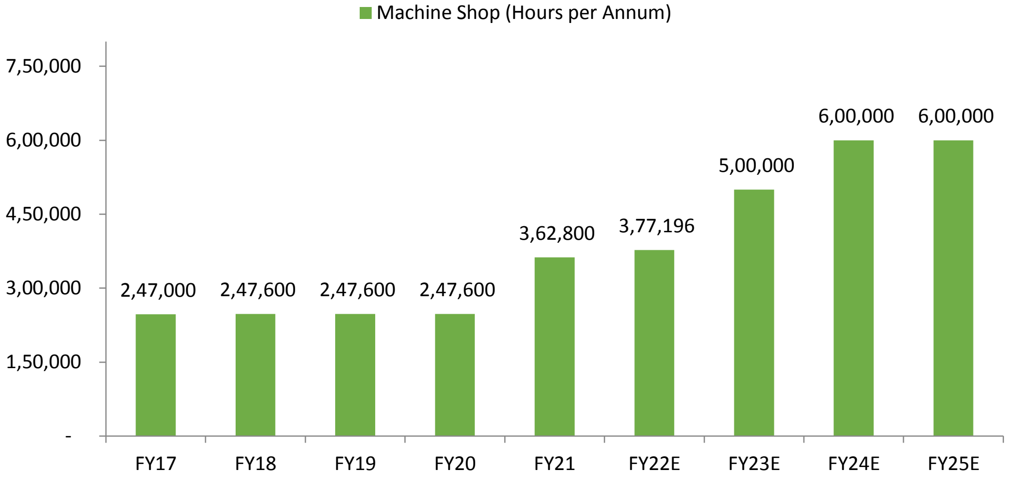
Source: Company, Arihant Capital Research

Investment Rationale

Capacity expansion to drive business growth: PEL's current capacity is 41,000 metric tonnes per annum (MTPA) and utilization rate 83.9% as on Q3FY22. PEL is in progress with a capex of INR 270cr at Aurangabad plant, which will be expected to complete by end of FY24E. After the capex, the installed capacity will be around 72,000 MTPA and estimated to utilize capacity which is around 57,600 MTPA with utilization rate of 80%.

In Q3FY22, The machining hours stood at 3,77,196 hours per annum and at the end of the capex the machining hours are expected around 6 lakh hours per annum in FY24E. The increase in capacity addition and machining hours will lead to a better position to serve industry demands which drives business growth for the company.





Source: Company, Arihant Capital Research

The company is implementing the capex phase wise. The company has incurred INR 60cr capex in existing facilities as a part of modular expansion. Further, the Company is going to incur INR 210cr as part of the brownfield expansion. The Company has already acquired additional land in Aurangabad. The company is in line with capital expenditure of INR 125cr during FY23E and remaining INR 145cr will be incurred for capex till end of FY24E, out of this INR 60cr would be an investment in balance of equipment and regular capex.

Investment Rationale

The current capacity stood at 41,000 tonnes per annum. The capacity will be increased to 48,000 tonnes per annum to 52,000 tonnes per annum in Q1FY23E. Further, the capacity will be increased to 72,000 tonnes per annum by end of FY24E.

Q3FY22

Capacity: 41,000 MTPA

Machining Shop: 3,77,196 hours per annum

Capex Incurred in existing facilities: ~INR 60cr

Q1FY23E

Capacity: 48,000 – 52,000 MTPA

Machining Shop: 5,00,000 hours per annum

Estimated Capex: ~INR65cr

Total Estimated Capex : ~INR 125cr

Brownfield Expansion

FY24E

Capacity: 72,000 MTPA

EV capacity: 4,000 MTPA out of 72,000 MTPA

Machining Shop: 6,00,000 hours per annum

Estimated Capex: ~INR 145cr

Total Estimated Capex : ~INR 270cr

Greenfield Expansion

Source: Company, Arihant Capital Research

The land, buildings and other utility infrastructure expenses are expected around INR 50cr to INR 75cr and remaining amount would be utilized for machines. The company imports the latest technology machines from International markets.

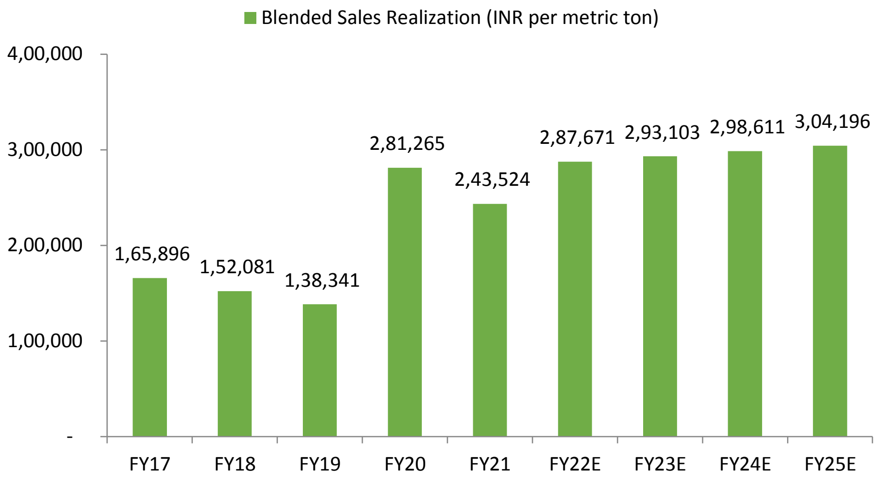
The existing ordered machines are expected to be installed in existing sheds and buildings in Q4FY22 or Q1FY23E. In brown field expansion, the company acquired 13 acres land on all three sides of the existing facility in Aurangabad and creating more infrastructure there with additional machines, which will be ordered in FY23E and will get installed by end of FY24E.

The capacity additions are well in place to execute the orders and deliver on time. The capacity additions are taken to meet the industry demands. The higher demand and timely order execution will drive the potential revenue growth.

Change in product mix leads to better realization: In FY17, Blended sales and EBITDA per tonne realization were INR 1,65,896 and INR 17,861 respectively. In the last 5 years, PEL has added assembled and value added products which had resulted in change in product mix. In FY21, Blended sales and EBITDA per tonne realization were at INR 2,43,524 and INR 36,197 respectively. In Q3FY22, the realization had further improved; Blended sales and EBITDA per tonne realization were at INR 3,10,036 and INR 40,126 respectively. We believe EBITDA per tonne will improve further to INR 42,000 to INR 44,000 going forward.

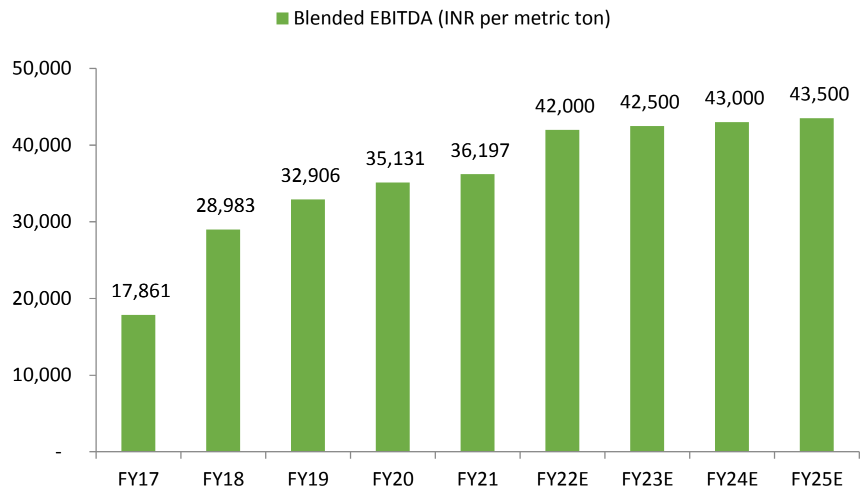
Investment Rationale

The company has achieved higher sales realizations due to Increase in share of Value added & Assembled products and widening end user market penetration. In the last 3 quarters (Q1FY22, Q2FY22, Q3FY22) blended sales realization were in between INR 2.8 lakh to INR 3.1 lakh per tonne. We are expecting the same range will continue till FY25E.



for more details refer Q3FY22 result update

The company has increased its higher EBITDA per tonne business revenue share like Traction Motors, Railway Components & Metro Rail segments which had resulted in Higher EBITDA per tonnes realization. In the last 3 quarters (Q1FY22, Q2FY22, Q3FY22) blended EBITDA per tonnes are in between INR 40,000 to INR 45,500 per tonnes. We are expecting EBITDA per tonne realization would be in between INR 42,000 to INR 44,000 per tonne till FY25E.



Pitti Engineering has expanded its universe of End Market Applications

In FY17, the company offered its products to few end user segments. Over the years, it has widened its product offerings to many end user industries. The increase in demand for value added & assembled components across various industries led to better realizations.

FY17 **FY21**

Source: Company, Arihant Capital Research

Investment Rationale

The company added values in terms of machining or integrating more components and assembling them. The assembled and value added products margins will vary from loose laminations. The assembly will become more complicated thereby more value addition which results in more margin. Data center application is highly value added which results in higher margins.

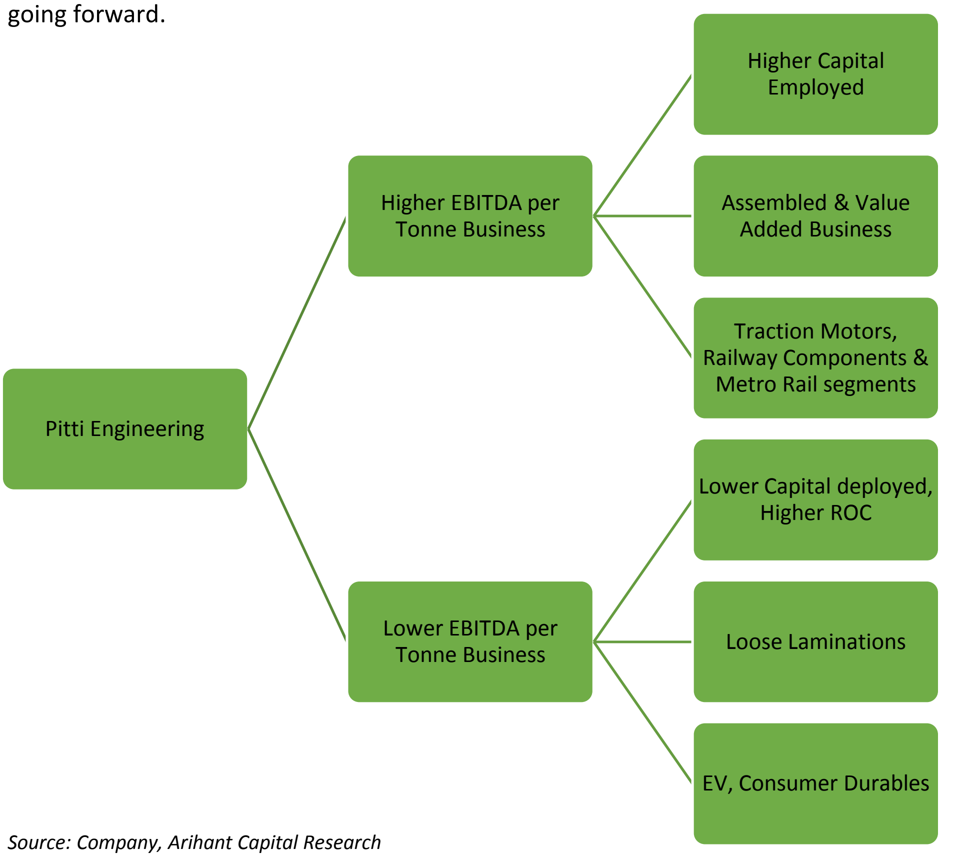
The company is chasing both lower EBITDA per tonne as well as higher EBITDA per tonne business. The lower EBITDA per tonne business are consumer durables and EV, because the value add and scale are very different. Consumer durable segments are inflationary in nature and price sensitive. The products for consumer durable segments, generally mass volumes and lower margins.

In the EV segment, the superior grade raw materials are used, so the basic cost of materials is higher, therefore the selling prices are higher. However, the margins will be lower and yield a better RoCE. EV is the balanced act between various end user segments.

In the EV Segment, the company supplies simple loose laminations as well as fully assembled components. The stator and rotors are assembled & value added products that will find application in the Electrical Vehicle (EV) segment. The company is in active discussion with a couple of end users to develop these products.

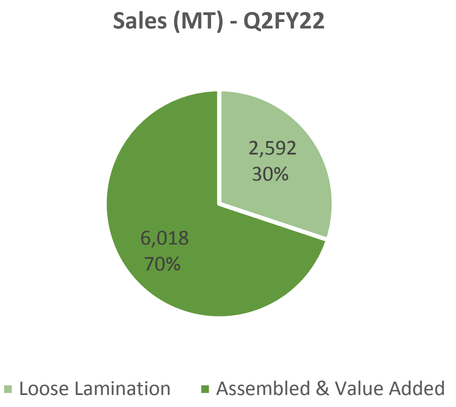
The company targets Higher EBITDA per tonne business such as Railways as well as other locomotives and metro related business. Traction Motor, Railway Components & Metro segment accounts for 32.2% of total revenue in Q3FY22. Over all, assembled & value added segments accounts for 68.2% of total Revenue.

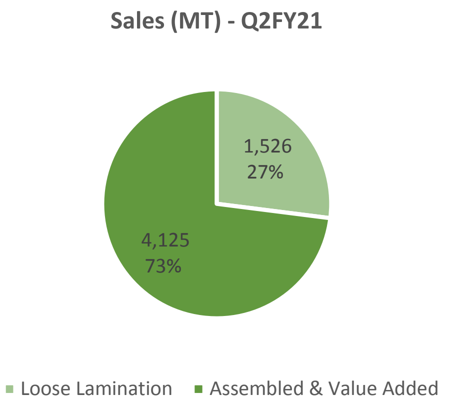
The company focused on a better portfolio mix which resulting in Higher EBITDA per tonne going forward.

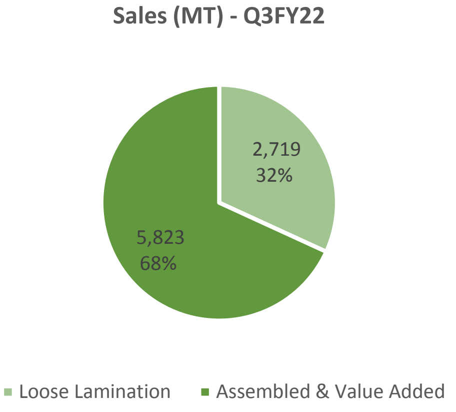


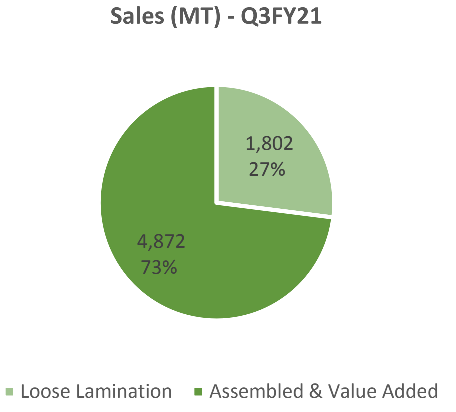
Source: Company, Arihant Capital Research

Investment Rationale









Source: Company, Arihant Capital Research

The assembled & value added business sales accounts for ~70% of total sales which is deriving higher EBITDA per tonne business. The company remains focused on optimized products portfolio for better realization going forward.

Change in raw material prices passed to customers: The increases and decreases in raw material prices fully passed on to the customers. The purchase orders are attached with a price variation clause (PVC). The purchase order is open for the quarter and the rest is in terms of demand forecast, because the customer will not open the purchase order, changing the purchase order is a complicated process.

The purchase orders should be released subsequently when the price is finalized. The price variations clause is done once in a quarter. After finalizing the price, the orders are executed in that quarter.

All the purchase orders are in build contract with price variation clause and change in raw material prices completely passed on to the end user customers. The inbuilt quarterly price variation clause with customers remains protected conversion cost and EBITDA on a per unit basis.

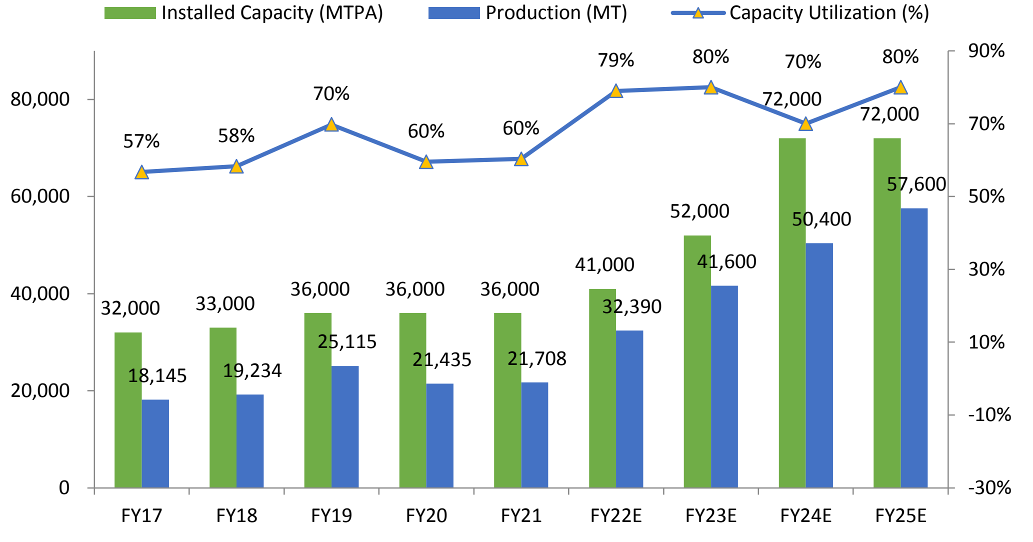
for more details about raw material cost

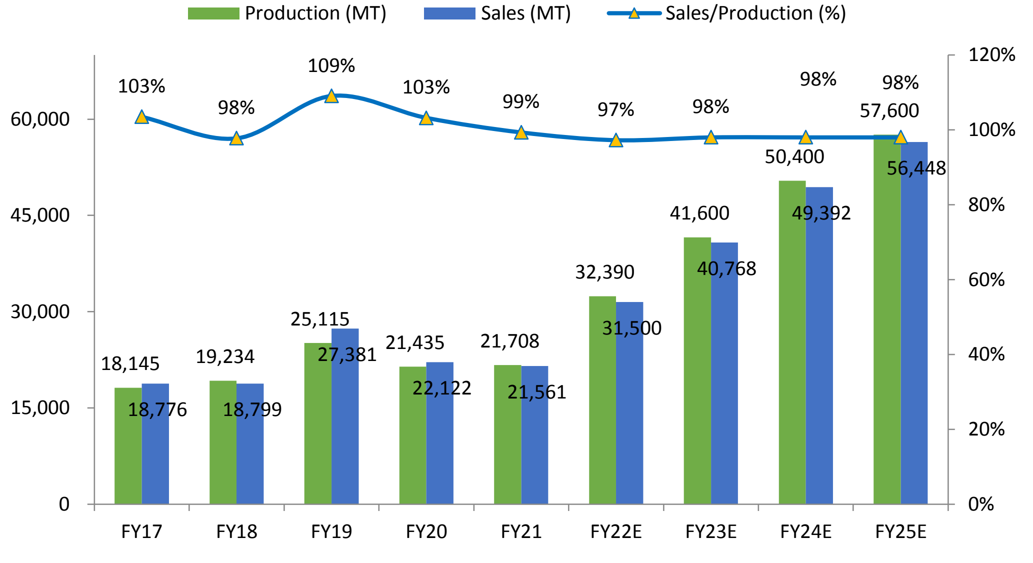
Investment Rationale

Robust order book leads to better revenue visibility

a) **Order book:** The order book stood at INR 987cr as on Q3FY22. out of INR 987cr, INR 700cr worth of order book is executable over the next 9 months. The executable order book within the next 9 months will be closer or less than 30,000 tonne. The remaining ~INR 300cr worth of orders are long term in nature spread over the next 2 to 3 years. The company will be getting more orders from the customers and keep filling the order book.

b) **Order Visibility after the capex:** The company can't able to deliver more new orders to customers as of now. The increase in capacity leads to seamless operations and timely delivery to customers and getting more order inflows on the same from customers. After the capex, The installed capacity is around 72,000 metric tonne per annum (MTPA) and order book visibility from clients is expected to be 55,000 to 60,000 metric tonne per annum which is based on capacity utilization rate of 80%.





Source: Company, Arihant Capital Research

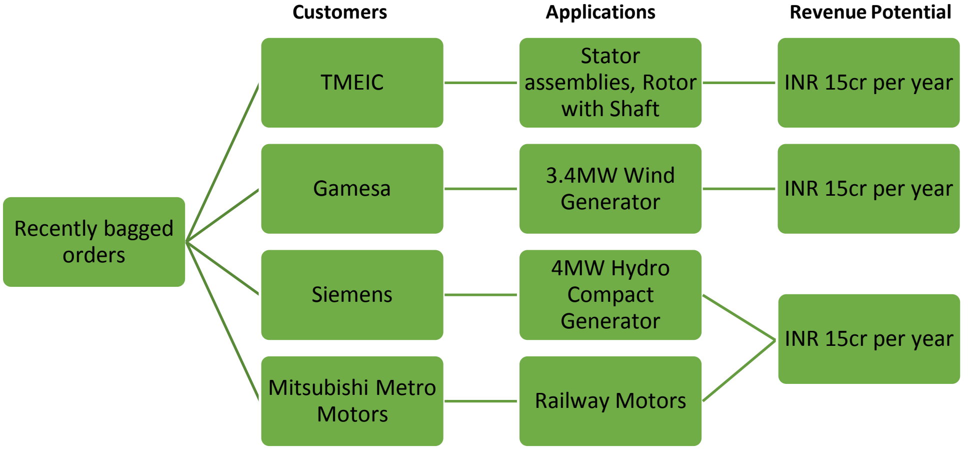
Investment Rationale

Robust order book leads to better revenue visibility

c) **Locomotives order book gives long term revenue visibility:** Locomotives segment includes Indian railways, Wabtec and exports of locomotives products. The order book stood at INR 987cr as on Q3FY22. out of INR 987cr, the locomotives segment of the business should be close to INR 400cr across all geographies. The railway contracts are multiyear contracts which are spread over to few years. The railway segment is expected to contribute 30% to 32% of total revenue on annual basis going forward.

d) **Good order flows for special purpose motors:** Special purpose motors segment has grown Q-o-Q basis in absolute terms as well as percentage terms. Special purpose motors can be deemed as a proxy for sugar, cement, steel and infrastructure related business. The company has received orders from TMEIC and Siemens Gamesa. Apart from special purpose motors, there is a requirement for regulator motors from cement, steel and sugar plants.

e) **Recently bagged orders:** The company bagged orders from Toshiba Mitsubishi-Electric Industrial Systems Corporation (TMEIC) to supply stator assemblies and complete rotor, with shaft worth INR 15cr. The order worth of INR 15cr for supply of 3.4MW wind generator stator and rotor assembly from Gamesa. The company developed these products for specialized applications which is 4 to 5 mega watt compact generator for Siemens and Railway motors for Mitsubishi metro and among others. The above all orders put together have a revenue potential of INR 45cr per year going forward



Source: Company, Arihant Capital Research

g) **LOI from Customers:** In EV space, the company has received Letter of Intent (LOI) for supply of stator and rotors from reputed e-bicycles and 2 wheelers manufacturers. The LOI received from power tool manufacturer for sample order to supply components for power motors. The company also getting new inquiries and is correspondingly doing product development which are converting into LOI and pilot orders. The inquiries are majorly coming from EV, power tools, e-mobility and other new end user applications. The company also received significant approvals from certain products from Indian railways having potential high volume runners in the future.

Investment Rationale

Incentives from Maharashtra Government: The company had implemented capex in Aurangabad in multiple phases. The phase I was implemented with INR 113cr which had got the approval for mega project status. The company will get the invested capex amount of INR 113cr over the 7 to 9 years as incentives from Maharashtra government. The company is expected to get INR 12 to INR 16cr every year from Maharashtra Government. The incentives amount may vary every year, because the company filing State Goods and Services tax (SGST) and claiming the SGST as incentives from the government. The company got sanction for INR 16.2cr while the approval had come for INR 21.6cr for the period of 1st Apr, 2018 to 31st Mar, 2020. The company has booked INR 16cr in FY21 and expecting INR 12cr to INR 15cr more for FY22E.

The company was already commissioned phase II which makes total investment of ~INR 180cr which includes ~INR 113cr. The company will get INR 29cr to INR 32cr per year which begins from FY23E and expected to run over next 5 to 7 years.

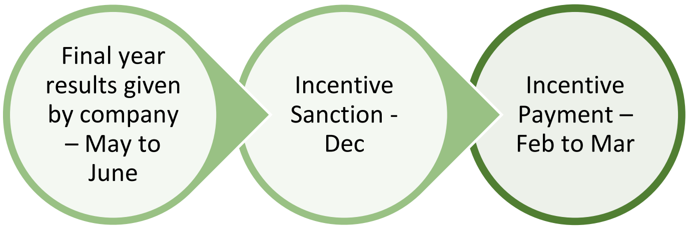
Incentive Schedule for INR 180cr

Particular (INR cr)	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Incentive Schedule for INR 113cr (Receivable)	21.6	12.3	15.8	15.8	15.8	15.8	15.8
Incentive Schedule for INR 67cr (Receivable)			13.4	13.4	13.4	13.4	13.4
Total Incentives - INR 180cr (Receivable)	21.6	12.3	29.2	29.2	29.2	29.2	29.2

Source: Company, Arihant Capital Research

The incentive schedule has forecasted for total investment for capex INR 180cr. However, the company has capex plan of INR 270 which is expected to complete by end of FY24E. The incentive schedule might change once the total capex reached to INR 270cr.

Incentive Realization: The company has to complete auditing of the balance sheet, then have to apply to Maharashtra Industries Department for claiming the incentives along with GST returns and audited accounts. It will take 2 to 3 months for application processing and sanction. After the sanction of incentives, it will take another 3 to 4 months for disbursement of the amount.



Source: Company, Arihant Capital Research

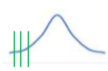
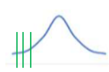
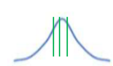
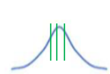
The company has to pay GST and thereafter company files for the claim for the reimbursement of SGST paid. However, the company needs to make the sales within Maharashtra to claim the incentives. The company has set up the facility in Aurangabad as the highest concentration of domestic clients are based in Maharashtra. The company has more sales than the requirement for incentives in the State.

Investment Rationale

Competitive Advantage – Entry Barriers for new entrants: In 30 years of journey, PEL has developed more than 5,000 different products to its clients. The new entrants need to develop all the 5,000 products to compete with Pitti Engineering Ltd which takes more time. PEL has 5,000 products and every year, gradually adding products in products library as per the customer requirements.

The customers find it difficult to change the supplier (PEL) and look for other alternatives, as most customers will take at least two years to get vendor registration. After vendor registration, development of one single product would take at least 6 months to 1 year. After that, the approval of the product from the customer goes into the life cycle. The life cycle would take 3-6 months. After that, The company would have 1st pilot supply and followed by commercial supply. So, the onboarding of customers to deliver the 1st new developed product would take 1.5 to 2 years. The similar timeline would be there to develop the rest of the product portfolio too.

Pitti Engineering Ltd has partnered with customers and developed relationships with them over the last 30 years. Pitti Engineering and customers both are dependent on each other and growing together.

Moats	Moat Lifecycle		Comments
Brand	-	-	Pitti Engineering Ltd has manufacturing of Steel laminations and assembled value added products. Its completely B2B business. The company is a contract manufacturer. it is just a level of supply that before and certain products which was 80% ready to use. The company don't have any specific brand. The competitors also don't have brands due to contract manufacturing.
Cost	Emerging Moat		The company reduced the expenditure in terms of sales in last 5 years due to scale of economies and strategic sourcing, automation in manufacturing across the facilities and timely execution.
Technology	Emerging Moat		The company continuously investing improvement of technology for seamless operations and importing latest technology machines for capacity expansion.
Switching Cost	Enduring Moat		The company is a contract manufacturer. Generally, the contracts are long term. Both Pitti Engineering and Customers are mutually dependent. Switching to competitor for development of new product and delivery would take 2-3 years. The time constraint and opportunity costs remains resist to switch over to competitors.
Distribution	Emerging Moat		The company has strategic manufacturing facilities in Hyderabad, Telangana and Aurangabad, Maharashtra. The company's domestic business accounts for 66% and Exports 34%. The company has to deliver the products quickly in domestic levels. The company is currently focused to increase domestic business revenue share to 80% and reduce exports revenue share to 20% over medium term, besides growing exports in absolute terms. The domestic focus would improve the distribution.
Efficiency	Enduring Moat		The company manufacturing utilization rate improved from 57% (FY17) to 83.9% in Q3FY22. The company remains focused to operate with minimum utilization rate of 80% which is the best in the industry.

Source: Company, Arihant Capital Research

Emerging Moat

Enduring Moat

Eroding Moat

Investment Rationale

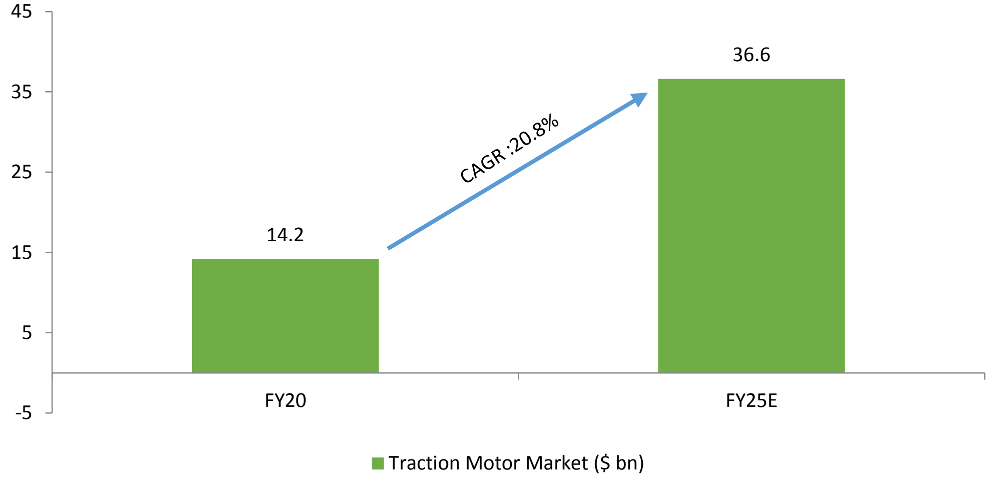
Partnership with customers: Pitti Engineering has build relationship with clients and had grown with them. Pitti and clients are solely dependent on each other. The top 5 clients would contribute 50% to 55% of revenue. The top 4 clients are Siemens, Wabtec, ABB, Cummins, 5th client would be Toshiba or Crompton.

Marquee Clients

Source: Company, Arihant Capital Research

Industry Overview

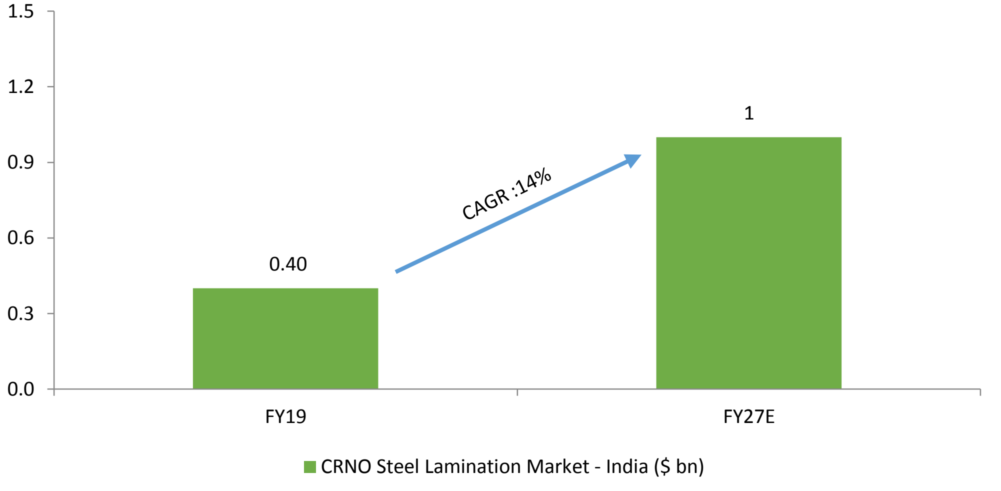
Electric Traction Motor Industry: The global traction motor industry is estimated USD 14.2bn in FY20 and expected to grow at a CAGR 20.8% to reach USD 36.6bn by FY25E. the growth is expected to driven by increase in demand for high performance motors, favorable government policies and subsidies and rise in investments in the railway sector.



Source: Industry, Arihant Capital Research

The increase in demand for electrical vehicles are expected to be driven by electric traction motors growth. The increase in traction motors growth leads to higher demand for core stator and rotor and lamination products.

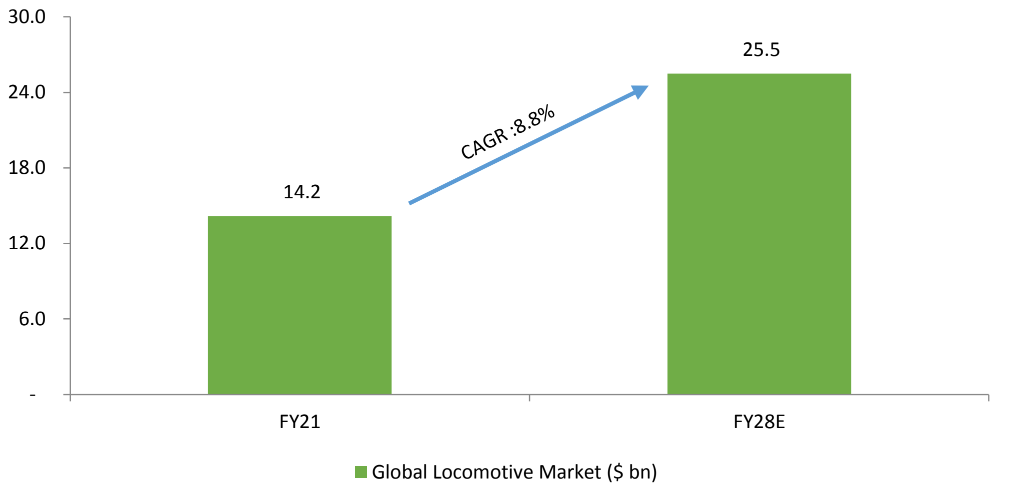
Indian CRNO Steel Laminations Market: The Indian Cold Rolled Non Grain Oriented (CRNO) steel laminations market estimated USD 0.4bn in FY19 and expected to grow at a CAGR 14% to reach USD 1bn by FY27E. The growth is expected to be driven by expansion of electrical vehicles and laminations and laminated assembled components for various engineering applications. The government also have set ambitious target for EV mobility and moving towards clean energy. The higher demand for laminations and assembled components for EV and various sectors due to revival of economy and moving towards cost efficiency.



Source: Industry, Arihant Capital Research

Industry Overview

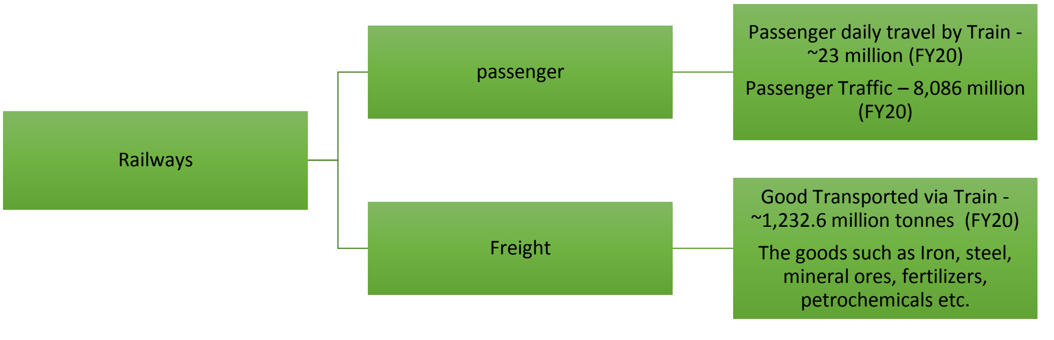
Global Locomotive Market: The global locomotive market was estimated USD 14.2bn in FY21 and expected to grow at a CAGR 8.8% to reach USD 25.5bn in FY28E. The growth is majorly expected to be driven by rising demand for fuel efficient products coupled with increasing environmental concerns and rapid growth in population and rising traffic congestion on roads.



Source: Industry, Arihant Capital Research

Indian Railways Market: Indian railways is the 4th largest railway network across the world. Indian railways has more than 1,23,542 kms of total tracks over 67,415 km route and approx. 7,300 stations. In FY20, Indian railways operated 13,169 passenger and 8,479 goods trains. In FY21, Indian railways has recorded highest loading in freight transportation.

In FY22 budget, The government has allotted INR 1,10,054.64cr to the ministry of railways. The "Atmanirbhar Bharat" initiative for development of an alternative high tech machines, that are needed to build high speed rails. The national rail plan for 2030, Indian railways is expected to reach future ready railway system by 2030 to bring down logistics cost and ensure 100% electrification in rail routes by FY23E. The railway infrastructure investment is expected around INR 50 lakh cr between 2018 to 2030.



Source: Industry, Ibef, Arihant Capital Research

The increase in population and lower logistics cost for transmitting the goods leads better demand for laminations and value assembled products for railways and locomotives market.

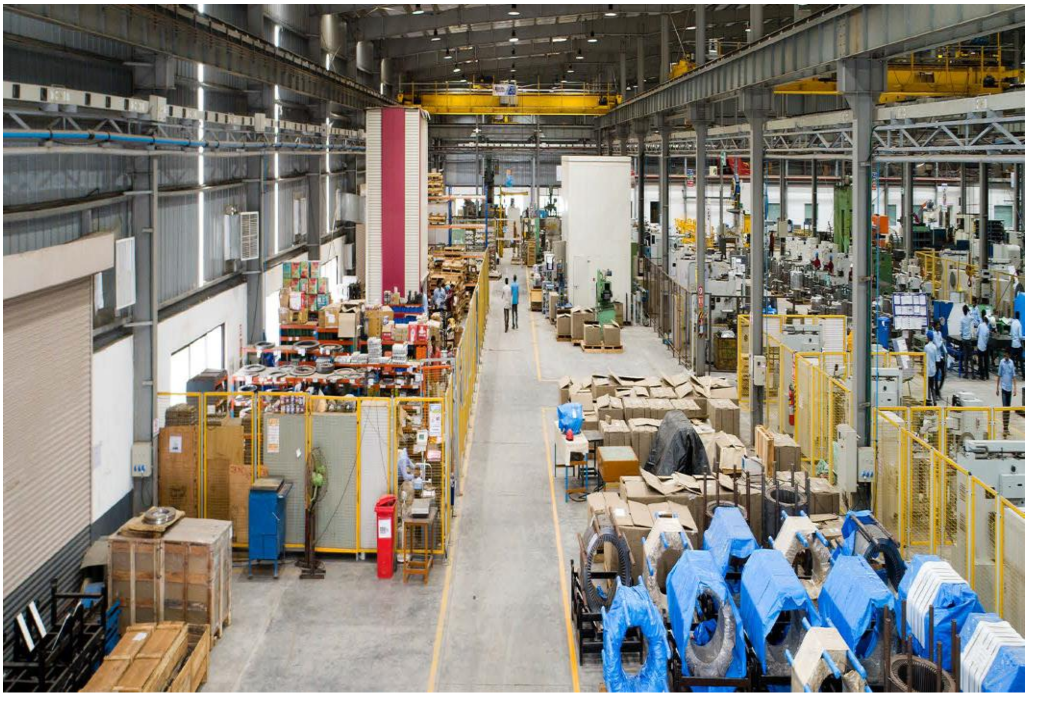
Business Overview

Pitti Engineering Ltd (PEL) was established in 1983, headquartered in Hyderabad, Telangana. PEL is engaged in manufacturing of Electrical steel laminations, Motor cores, Sub assemblies, Die-Cast rotors, Press Tools and machining of metal components. The company have three manufacturing plants which are strategically located in Hyderabad and Aurangabad. The manufacturing plants are in close proximity to both customers and raw material sources. This leads to cost optimization and better returns on the investments. The plants has sheet metal capacity of 41,000 metric tonnes per annum (MTPA) and 3,77,196 machining hours per annum as on Q3FY22. Hyderabad plant has capacity of 10,000 metric tonnes per annum (MTPA) and Aurangabad plant has 31,000 metric tonnes per annum (MTPA) as on Q3FY22.

The company is currently undergoing INR 270cr capex to increase the capacity in Aurangabad plant to meet industry demands. The company exports the products to over 12 countries and exports revenue contributed 34% of sales as on Q3FY22. The company exports to 12 countries, those are Australia, Brazil, Canada, Germany, Japan, Mexico, South Africa, UK, USA, Vietnam, Kazakhstan.

The company has partnered with customers and supplying the components as per their requirements. The order book stood at INR 987cr as on Q3FY22.

The company continues to focus on remodeling strategic framework that focuses building differentiated products by understanding the customer needs and adding value for the products which creates new markets. The company focused to understand the customer business and provide unique product solutions to them to keep long term business relations. The company remains to adopt new technologies in manufacturing plants which lead to delivering of high precision products. The company offers unique products to customers based on contract manufacturing. The company growth is based on investment strategies backed by prudent capital allocation across the journey. The company remains focused on differentiated product offerings, wide variety of engineering products offered to multiple end user segments and long term relationships creates sustainable growth for the company.



Source: Company, Arihant Capital Research

Business Overview

1983

Founded by Mr. Sharad B. Pitti, PEL started with an installed capacity of 2,500 MT

1994-2000

Enhanced manufacturing capabilities by commissioning second unit at Hyderabad – an integrated manufacturing unit focused on manufacturing of die cast rotor, machining & assembly

Established international presence by exporting engineering products to USA

Listed on the BSE stock exchange

2005-2015

Listed on the National Stock Exchange

Strengthening market share across domestic and international markets

Exports to Mexico, Germany and Vietnam among others

2017

Commenced the construction of third and fourth green field manufacturing unit at Hyderabad and the mega plant at Aurangabad

Inked a multi-year deal worth INR 500 cr with Wabtec for supplying different engineered products

2018

Commenced commercial production at both the Hyderabad and Aurangabad facilities

Grew order book by increasing the value of multiyear contract with Wabtec to about INR 700 Cr.

2020

Enhanced portfolio with introduction of components of traction motors, under carriage and drive motor parts for Indian Railways (CLW, ICF, BLW)

Additional capex outlay of INR 270 cr proposed

Source: Company, Arihant Capital Research

Business Overview

PEL's Transformation

Particular	1990	2000	2010	2020
Application Industry	Motor Industry	1) Specialised Motors 2) Generator Industry 3) Aviation 4) Elevators	1) Traction Motors 2) Traction Alternators 3) Wind Generators 4) Hydro Power Projects 5) Oil and Gas Industry 6) Mining Application 7) Telecom Tower	1) Super Critical Thermal Generators 2) Mass urban transit systems 3) Generators for Data Farms 4) Electric Vehicle Applications 5) Railway Engine Components 6) Railway Under Carriage Parts 7) Appliances
Product Lines	Sheet metal lamination, punching	1) Stator and rotor assemblies for small and medium motors. 2) Rotors die casting for small and medium motors. 3) Slitting and cut to length line Core bonding (gluing) line.	1) Sub-Assemblies manufacturing facilities 2) Aluminium Diecasting for large motors 3) Coil fed blanking line 4) Stator Assemblies with steel casting frame & machined 5) Re-Coating line & de-burring line. 6) Duct spacer assembly Line	1) CNC shaft manufacturing line 2) High speed punching line with auto skew and stitching cores 3) Fabrication line 4) Copper bar assembly and brazing 5) Aluminium TIG welding 6) Ready to use rotor assembly 7) Specialised surface preparation line 8) Laser machining 9) Large CNC machining lines

Source: Company, Arihant Capital Research

PEL's Transformation

Particular	1990	2000	2010	2020	Dec-2022
Geographic Diversification	Indian Markets	USA	Canada Germany Mexico UK	Australia Brazil Kazakhstan Japan South Africa Vietnam	Australia Brazil Canada Germany Japan Mexico South Africa UK USA Vietnam Kazakhstan
Manufacturing Capacity	2,500 MT	6,000 MT	25,000 MT	39,600 MT 3,62,800 CNC Machine Hours	41,000 MT 3,77,196 CNC Machine Hours
Intellectual Capital	103+	251+	949+	933+	933+

Source: Company, Arihant Capital Research

Business Overview

Key Product Lines

- Sheet Metal
  - Sheet Metal Laminations – 0.35 to 3 mm thickness
  - Laser cut steel stampings – 0.35 to 25 mm thickness
  - Special Process: Re-coating on insulation layer for hydro and thermal generators – 0.005 mm
- Precision Machining
  - Machining of stator & rotor cores – 200 to 400 mm outer diameter.
  - Shaft – up to 900 mm and 3 meter length
  - Precision machined casted parts – up to 4,000 kg in assembled condition
  - Casting Materials – Grey Iron/ ductile Iron/ low carbon steel alloy / mini alloy steel
  - Fabrication Facility – for manufacturing of gear cases and motor frames.
- Assemblies
  - Large Stator core assembly – up to 1,600 meter size
  - Large rotor cores – up to 1,500 kgs weight
  - Large die cast rotors – up to 550 mm (diameter), up to 980 mm (core length) and weight up to 120 kgs
  - CNC Machines – travel up to 1,600 mm x 1,600 mm for complex machining parts
  - Inspection Fixtures – for quality of stacks under high pressure application

Source: Company, Arihant Capital Research

Business Overview

Products

Rolled Coils

Lamination Machine

Lamination Products

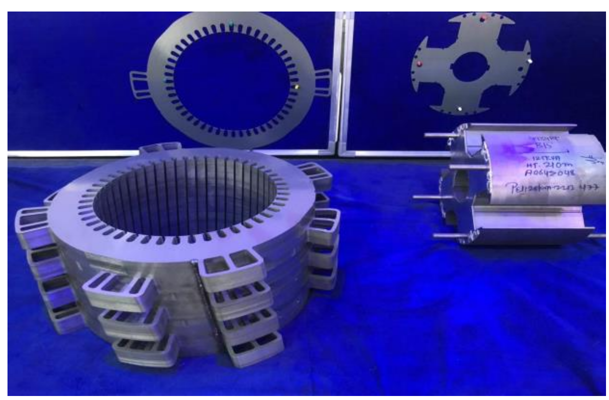
Stator

Rotor

Shaft

Motor Components

Stator & Rotor



Source: Company, Arihant Capital Research

Business Overview

Products

Exciter Cores (80-250 KVA)

Exciter Stacks (up to 3,300 KVA)

Motor Assembly Components, Fan & EV Laminations

Source: Company, Arihant Capital Research

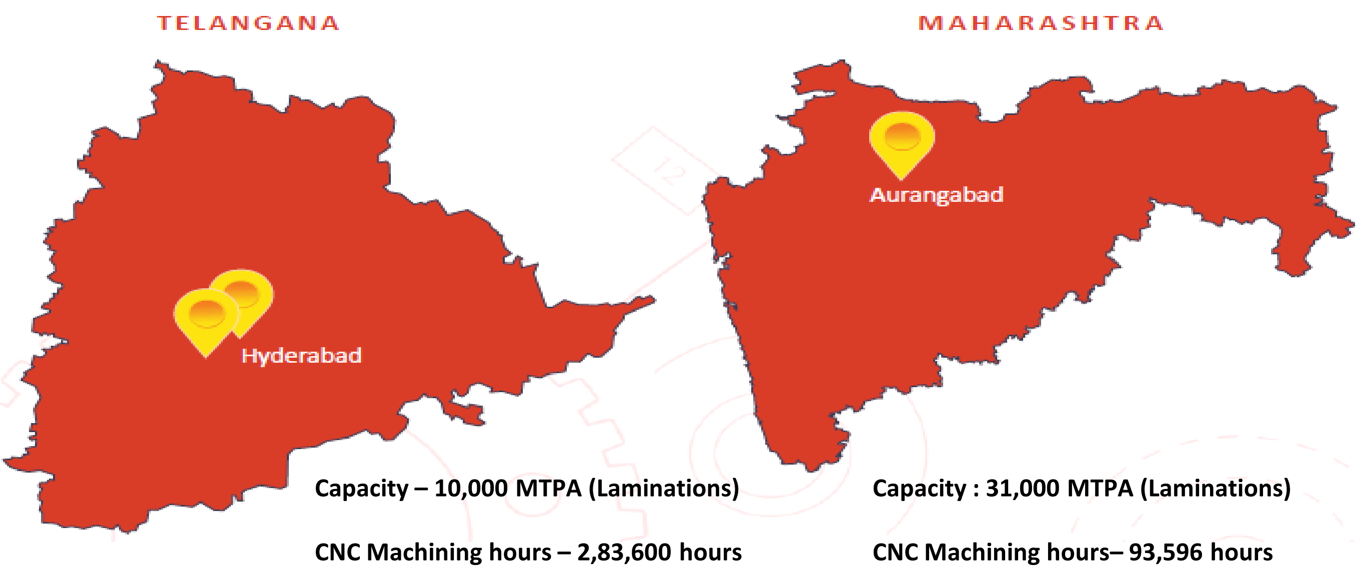
The company has more than 5,000 products, for more products refer company reports

Business Overview

Industry Applications

Source: Company, Arihant Capital Research

Manufacturing Facilities



Source: Company, Arihant Capital Research

Company Board

Personnel	Designation	Description
Shri Sharad B Pitti	Chairman and Managing Director	Shri Sharad B Pitti is the founder of the Company, belonging to a renowned business family of Hyderabad. He is a visionary and a pioneer for lamination manufacturing in the organised sector in India. Shri Sharad B Pitti has played a pivotal role in PEL's growth and development over the years.
Shri Akshay S Pitti	Vice Chairman & Managing Director, Interim CFO	Shri Akshay S Pitti, started his journey in PEL at a very early age. Over the years, he moved up through the ranks after acquiring a deep understanding of different business processes and rich business experience. Under his leadership the Company has taken giant steps towards making PEL a more technologically advanced and a globally renowned Company.
Shri Rishab Gupta	President Strategic Supply Chain Management	Shri Rishab Gupta is a Post Graduate in Business Administration. He has rich experience in the field of supply chain management. He is responsible for supply chain management and projects & maintenance.
Shri Sandip Agarwala	President Marketing & Operations	Shri Sandip Agarwala is a Postgraduate in Business Administration. He has 19 years of experience in the field of marketing and business development matters. He is responsible for marketing & operations of the company.
Shri Varunn Agarwal	President Projects & Rail Business	Shri Varunn Agarwal is a Commerce graduate and brings rich industrial experience with him, specifically in manufacturing sector. He is responsible for railway projects and castings.

Source: Company, Arihant Capital Research

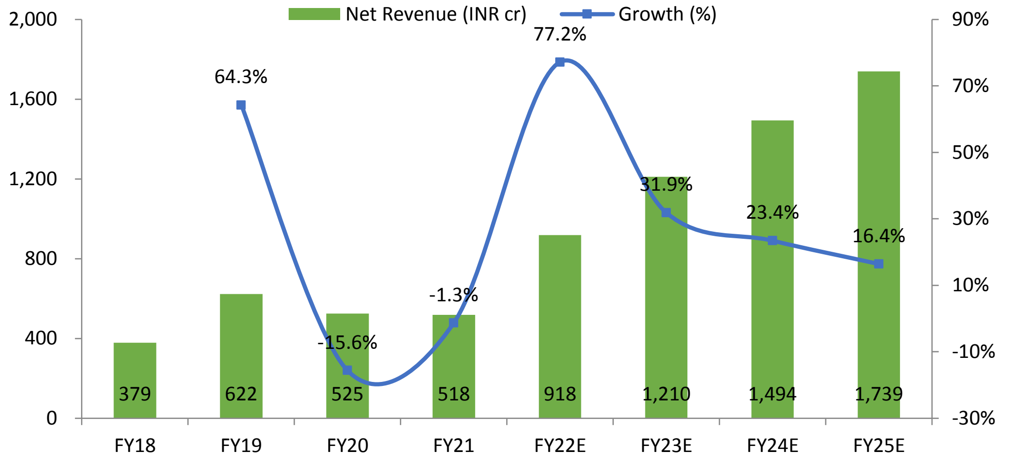
Porter Five Forces

01	Rivalry among existing firms (Low)	• Pitti Engineering has developed more than 5,000 products over 30 years of time. The company has build strong relationship with customers and delivering products as per customer requirements. its really difficult to disrupt the market and takeover the pitti engineering's clients by its competitors.
02	Threat of potential entrants (Moderate)	• Capital Intensive business. • Superior efficiency, Quality products are customised to specifications as per customer requirements. • Intense Research & Development. • New entrants will take 1-1.5 years for development of products and deliver final products would take 4-5 years of time.
03	Threat of substitutes (Low)	• Buyers tends to need specific laminations or value added components • There is no alternative or similar substitute. • If available that should be available in same company or industry.
04	Bargaining power of suppliers (Moderate)	• Pitti Engineering has limited substitutes for inputs. Mostly metals like steel. • Pitti engineering rely on few large companies and input materials are mostly traded in markets. So, the pricing based on the markets.
05	Bargaining power of buyers (Moderate)	• Pitti Engineering has to pass through the raw material cost to customers. The customers will bear the effect of changes in raw material costs. • Few clients from Hydro & Thermal power plants and wind components have fixed price and fixed volume based on contracts. • In Indian railways orders, the prices based on indexes

Source: Company, Arihant Capital Research

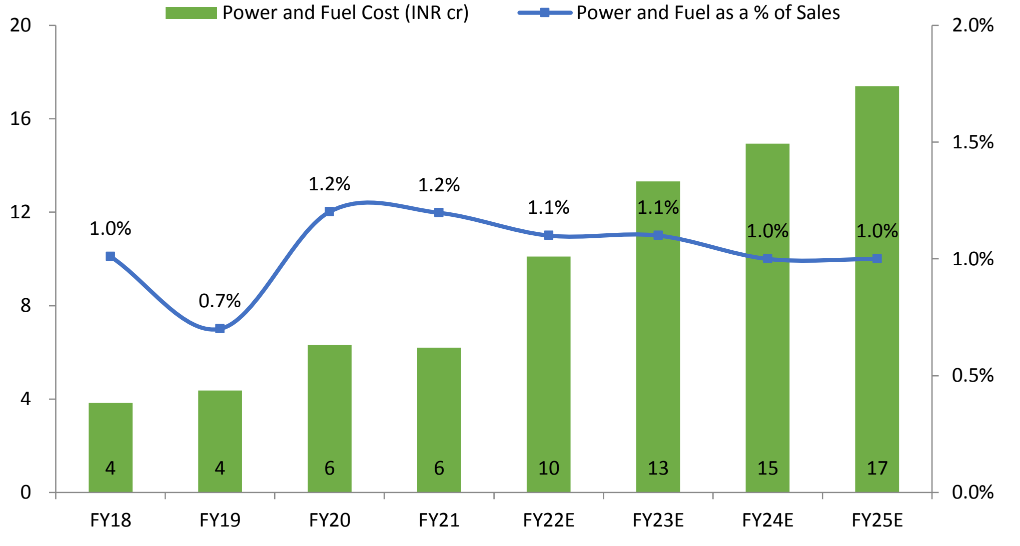
Financial Analysis

Net Revenue: Net Revenue was recovered in FY21 and strong growth witnessed on quarterly basis due to higher demand from customers and achievement of higher capacity utilizations. The growth went to negative territory in FY20 due to covid impact. The company has started receiving orders after lifting restrictions and revenue sharply bounced back immediately on a quarterly basis. Net revenue grew from INR 379cr (FY18) to INR 518cr in FY21. Net revenue witnessed growth of 11% CAGR during the period of FY18 to FY21 and expected to grow at a CAGR 42.3% over the period of FY21 to FY24E. The growth majorly expected to be driven by capacity expansion and higher demand from customers. The Net revenue is expected to reach around INR 1,700cr to INR 1,800cr levels in FY25E.



Source: Company, Arihant Capital Research
Net revenue – not included other income

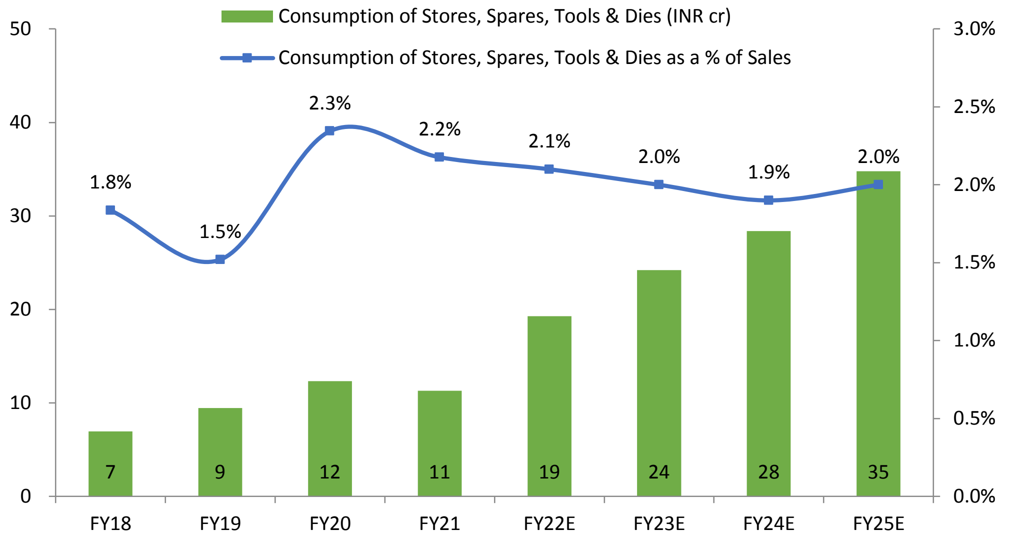
Continue to maintain Power & Fuel Cost: The company has incurred fuel and power cost at 1% of sales in FY18. The company has managed the power and fuel cost between 1% to 1.2% from FY18 to FY21. The company is expected to maintain more or less 0.2% in terms of sales from current levels in going forward.



Source: Company, Arihant Capital Research

Financial Analysis

Continue to maintain stores, spares, tools & dies cost: The company has incurred consumption of stores, spares, tools & dies cost at 1.8% of sales in FY18. The company has managed the stores, spares, tools & dies cost between 1.5% to 2.3% from FY18 to FY21. The first set of tool cost is borne by customers, if any damage to the first set of tools while manufacturing, the 2nd set of tools cost will be borne by the company. However, there are less possibilities to use the 2nd set of tools. The company is expected to maintain the costs more or less at 0.2% of sales from current levels going forward.



Source: Company, Arihant Capital Research

Tools

Source: Company, Arihant Capital Research

Financial Analysis

End-user applications wise revenue: The company's majority of revenue comes from Traction motors, railway components & Metro (32% of revenue) as on Q3FY22. The company has an order book of INR 987cr as on Q3FY22. The traction motors, railway components & metro segment of the business should be close to INR 400cr across all geographies. The railway contracts are multiyear contracts which are spread over a few years. The railway segment is expected to contribute 30% to 32% of total revenue on an annual basis going forward. The special purpose motors, Industrial & commercial motors and power generation segments have significant revenue exposure and have potential opportunities in the market.

End-user applications wise revenue	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Appliances & Consumer Durables	4%	1%	3%	1%
Data Centre Backup Power System	9%	9%	2%	3%
Industrial & Commercial Motors	17%	26%	19%	15%
Mining, Oil & Gas	7%	7%	4%	3%
Power Generation (Thermal, Hydro & Onsite DG Sets)	17%	15%	15%	14%
Renewable Energy & Windmill Components	1%	2%	6%	5%
Special Purpose Motors	0%	0%	11%	12%
Traction Motor, Railway Components & Metro	18%	18%	29%	32%
Others	27%	23%	12%	14%

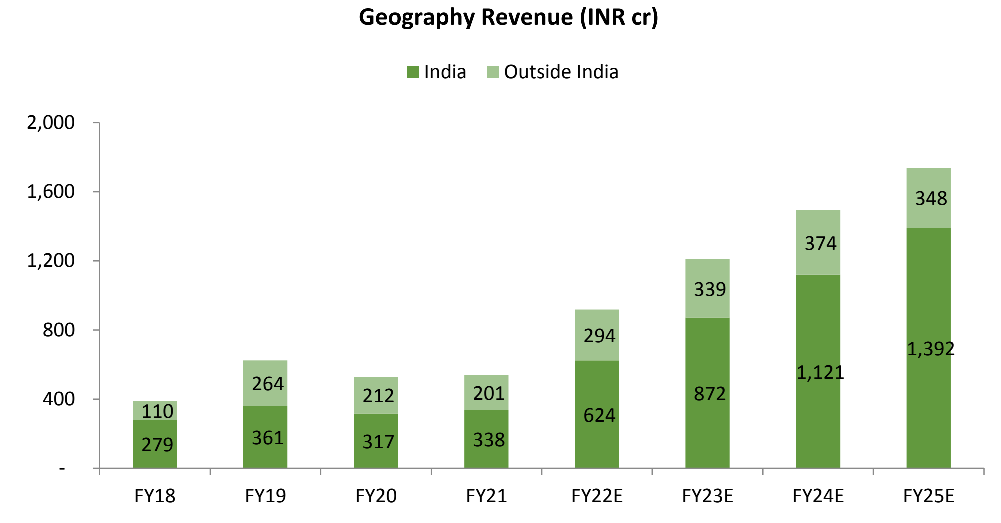
Source: Company, Arihant Capital Research

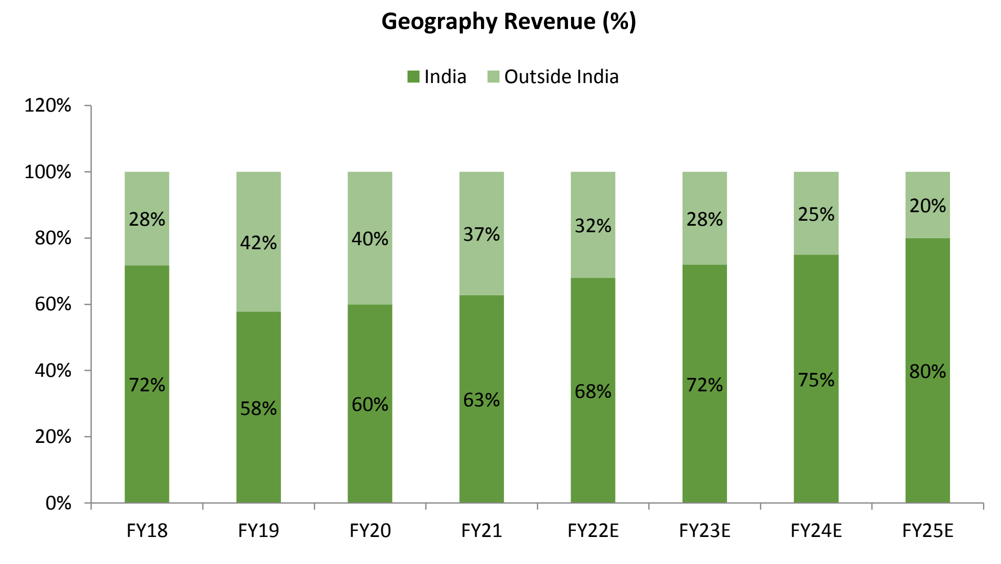
End user applications	Cyclicality
Renewable Energy & Windmill components	Renewable Energy & Windmill components having cyclicality, In rainy seasons windmill installations has affected and revenues are fluctuating through quarters. However, the company has nearly 5% revenue share in Energy and windmill components.
Special Purpose Motors	Special Purpose Motors has some level of Cyclicality. Special purpose motor segment constitutes of 12% of revenue in Q3FY22. Special purpose motors is do with overhauling of existing capacity or setting up brand new capacity.
Power Generation	Power Generation revenue accounts for 14.4% revenue in Q3FY22. India is growing economy, so there is going to be more consumption of power. There is no cyclicality in near term.
Data Centre Backup Power System	Data centre power backup systems accounts for 2.6% of revenue in Q3FY22. Power backup systems is the new application and as consumption of data grows and storage systems for data grows. The company will continue to shine in the business.
Traction Motor, Railway components	Traction Motor, Railway components has no cyclicality. Traction motor and railway components business revenue accounts for 32% of revenue. This is fixed bid business.
Industrial & Commercial Motors	Industrial & commercial motor segment constitutes of 15% of revenue in Q3FY22. This is moreover repair and replacement market.
Appliances & Consumer Durables	Appliances & Consumer Durables has cyclicality. The company making components for fans and others. In summer season fan sales will be higher. So, previous quarter of summer season the company have higher sales and previous quarter of winter season have lower sales for fan components.

Source: Company, Arihant Capital Research

Financial Analysis

Focused to increase domestic sales and reduce exports: The company's domestic business accounts for 63% and Exports 37% in FY21. The company has to deliver the products quickly in domestic markets. In Exports, the International supply chain disrupted due to covid waves in FY20 and FY21. Exports cycle is longer as compared to domestic cycle, exports take time to deliver goods and have higher day sales outstanding (DSO). Besides, many of the company's customers have shifted their manufacturing base to India, which has led to an increase in orders from the domestic market. So the company focuses on domestic business. The company is currently focused on reducing exports revenue to 20% over the medium term.





Source: Company, Arihant Capital Research
Geography revenue includes other income.

Financial Analysis

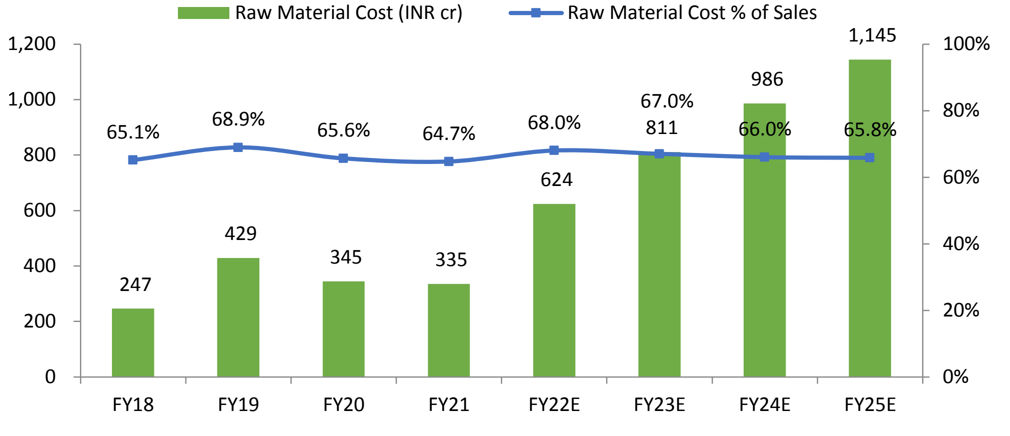
Continue to maintain raw material costs: The increases and decreases in raw material prices are fully passed on to the customers. The purchase orders are attached with price variation clause (PVC).

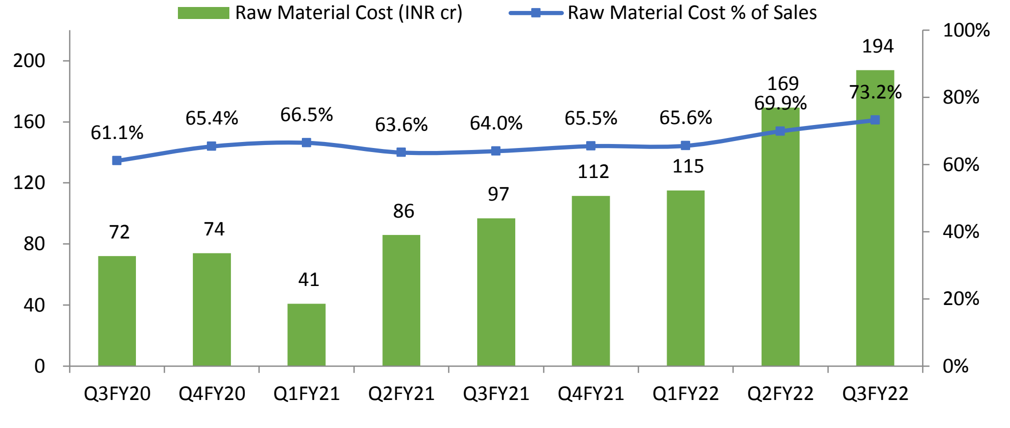
The company have three different kind of schemes to pass through raw material cost to customers.

1. **Quarterly price change mechanism** – Raw material prices are fixed for the quarter for both input and output, the prices are held to the customers for full quarter. The raw material cost fluctuations has 100% pass through to customers on a quarterly price mechanism. This scheme covers 100% of the business.

2. **Fixed volume and Fixed price contracts** – These contracts for wind mills, hydro and thermal power plants. The contracts based on customer requests and supplies takes around 3 to 4 months. The company hold the prices to supplies to through with them and 100% insulated for price increases.

3. **Indian railways contracts** – The raw material prices are annually and change in prices based on indexes. The company may be impacted for 2 to 3 months, because increase/decrease in prices.



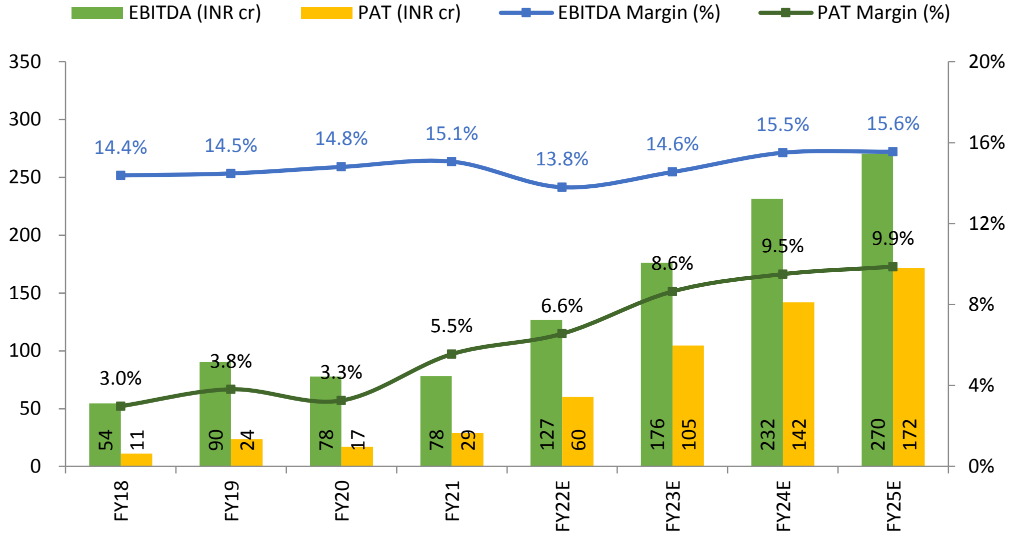


Source: Company, Arihant Capital Research

In Q2FY22 and Q3FY22 quarters, The raw material prices went up in terms of sales due to higher fluctuations in raw material prices due to global uncertainty. The company continue to maintain 65% to 68% of raw material cost in terms of sales going forward.

Financial Analysis

Improvement in Margin levels: The company continues to focus on optimization of costs which leads to bringing back the EBITDA Margins and focusing on debt repayments leads to reduction in finance cost which leads to improvement in PAT margin levels.



Source: Company, Arihant Capital Research

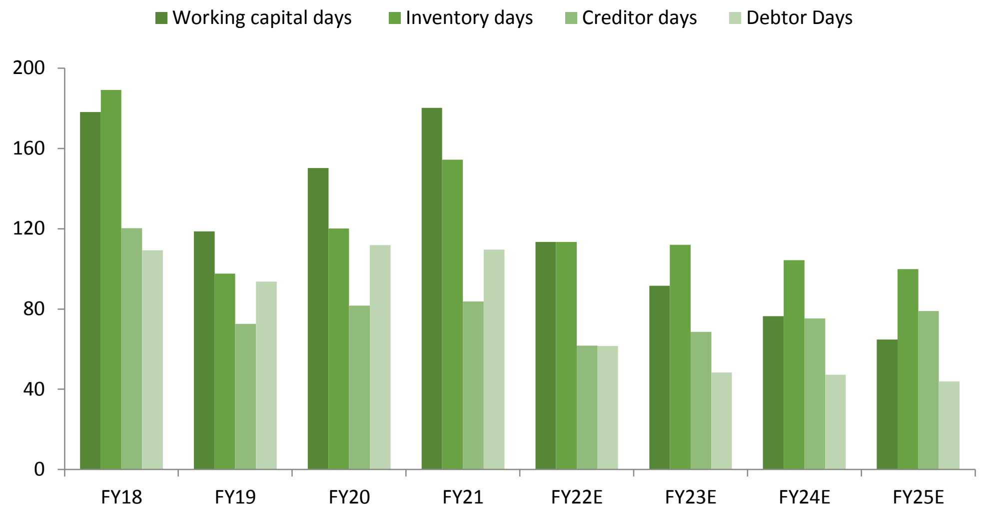
Working Capital Cycle to Improve: The inventory days increased from 98 days (FY19) to 120 days and 154 days in FY20 and FY21 respectively. The lockdown imposed due to covid-19, resulted in economy slowdown and shutdown of factories/operations which led to less demand for products from customers. The movement of goods restricted in between States, impacted sales which had resulted accumulation of inventories.

The debtor days increased from 94 days (FY19) to 112 days and 110 days in FY20 and FY21 respectively. The company focused to reduce the debtor days by reducing the credit offer and pass the benefit to customers by reducing sale price marginally. The reduction of selling prices could impact INR 1,000 to INR 1,200 EBITDA per tonne. If a company offers products on credit basis, the company would add interest cost while pricing. Basically, the price reduction is to avoid interest cost from customers and achieve faster collections.

The creditor days stood at 73 days, 82 days and 84 days in FY19, FY20 and FY21 respectively. During covid period, The company got 10 days extra time to pay goods bought from the seller. Post covid, The company is expected to pay the cash to the seller within 70-80 days going forward.

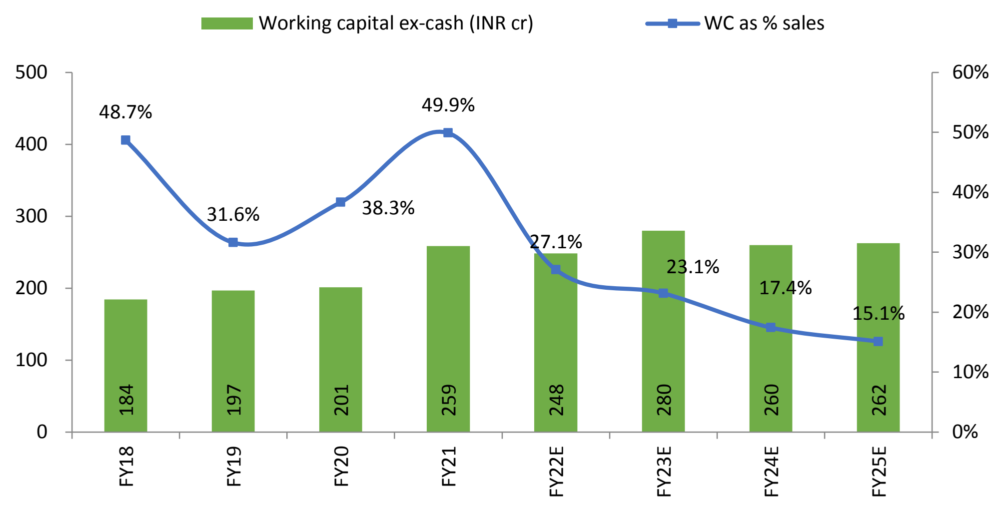
The working capital days increased from 119 days (FY19) to 150 days and 180 days in FY20 and FY21 respectively. Post covid, clearing inventories and quick cash collections will improve the working capital cycles. We are expecting PEL will bring the working capital cycle to 60 to 65 days going forward.

Financial Analysis



Source: Company, Arihant Capital Research

Hence, The improvement of working capital cycle will improve working capital ex-cash in % of sales.

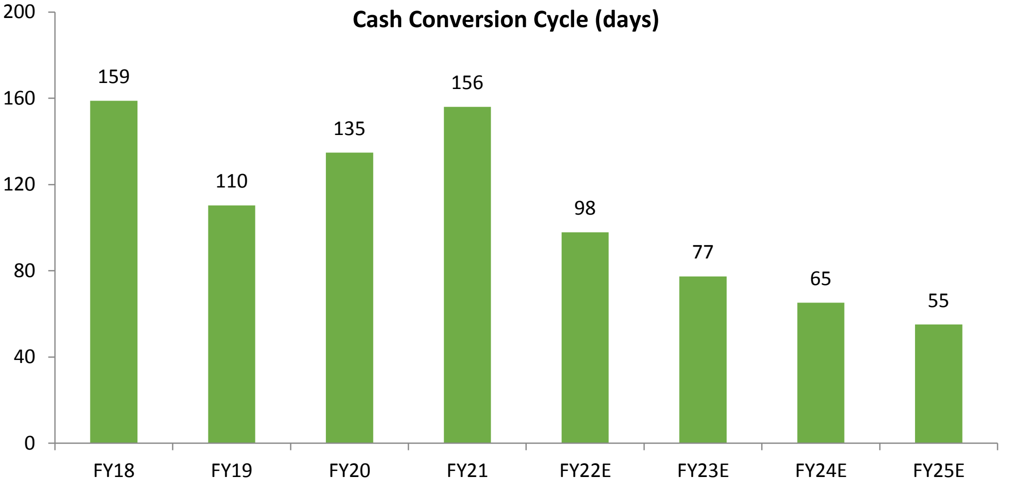


Source: Company, Arihant Capital Research

Cash Conversion Cycle to Improve: The cash conversion cycle increased from 110 days in FY19 to 135 days and 156 days in FY20 and FY21 respectively, due to higher working capital cycle led by increasing debtor days from 94 days in FY19 to 112 days/110 days in FY20/FY21 respectively, also higher inventory days from 98 days in FY19 to 120 days/154 days in FY20/FY21,respectively.

We are expecting cash conversion cycle will improve to 98 days/77 days/65 days in FY22E/FY23E/FY24E respectively, due to reduction of inventory levels and collection improvement going forward.

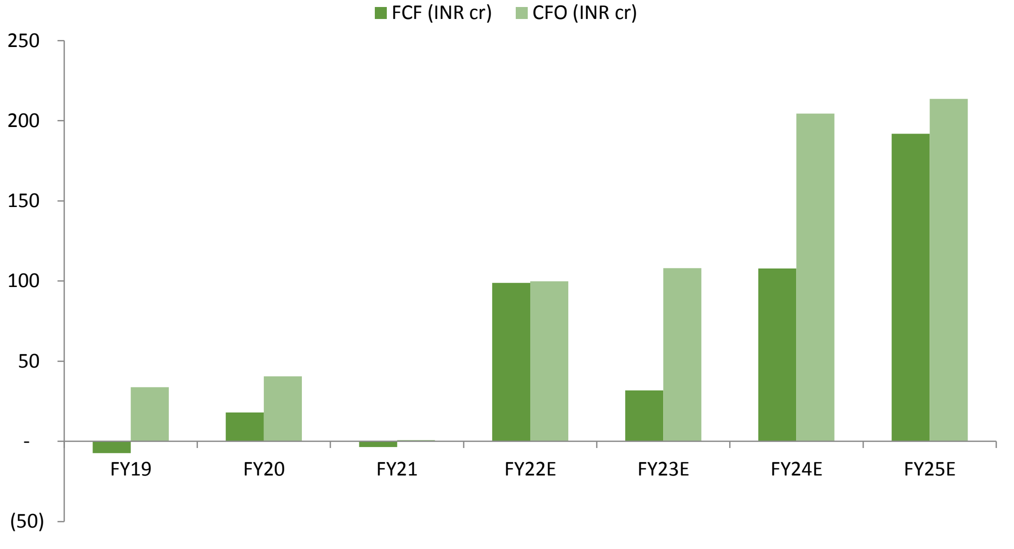
Financial Analysis



Source: Company, Arihant Capital Research

Improvement of Cash flow generation: The company is currently undergoing capacity expansion at the Aurangabad plant. The capex is expected to be around INR 270cr and expansion is expected to complete by end of FY24E. In FY23E, The capacity of the plant is expected to be around 48,000 to 52,000 MTPA and 72,000 MTPA in FY24E. The company is experiencing higher demand from customers. So, after installation of capacity, the plant is expected to operate at around 80% of utilization.

The strong visibility of earnings growth, capacity expansion, margin expansion and improvement in the working cycle, we expect free cash flow to improve INR 99cr/INR 32cr/INR 108cr, respectively over the period of FY22E-FY24E.

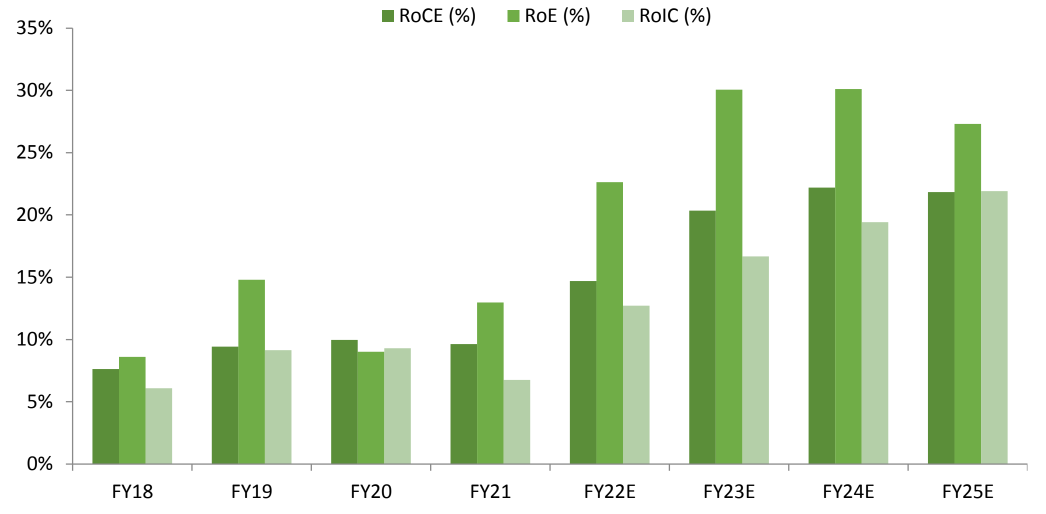


Source: Company, Arihant Capital Research

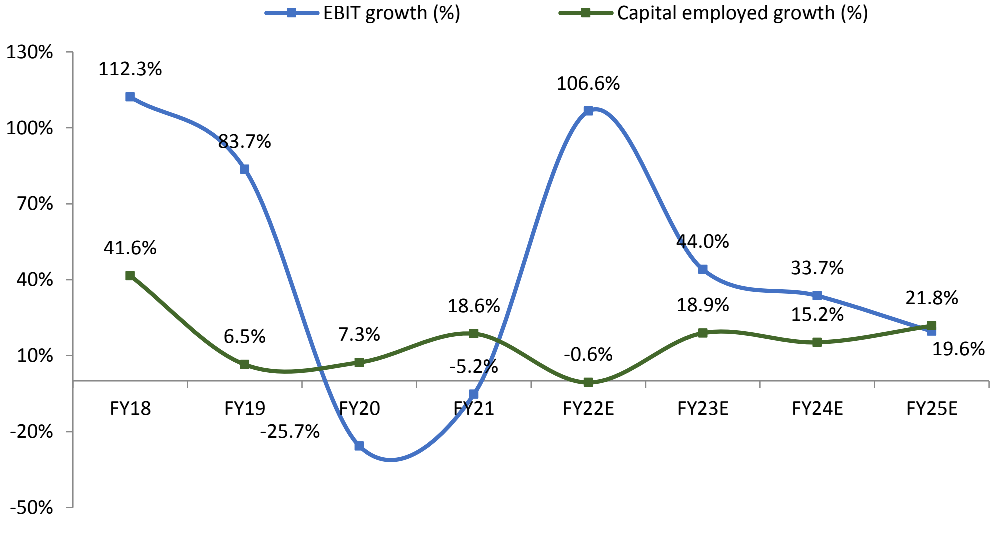
Financial Analysis

Return ratios to Improve: In comparison to revenue growth of 42.3%, and EBIT growth of 58.4%, capital employed is expected to grow by 10.7% over FY21-FY24E.

Due to the healthy EBITDA margin expansion and PAT growth, we expect return ratios to improve significantly in going forward. We estimate RoCE to expand from 9.6% in FY21 to 22.2% in FY24E. RoIC to improve from 6.8% in FY21 to 19.4% in FY24E and RoE to improve from 13% in FY21 to 30.1% in FY24E.



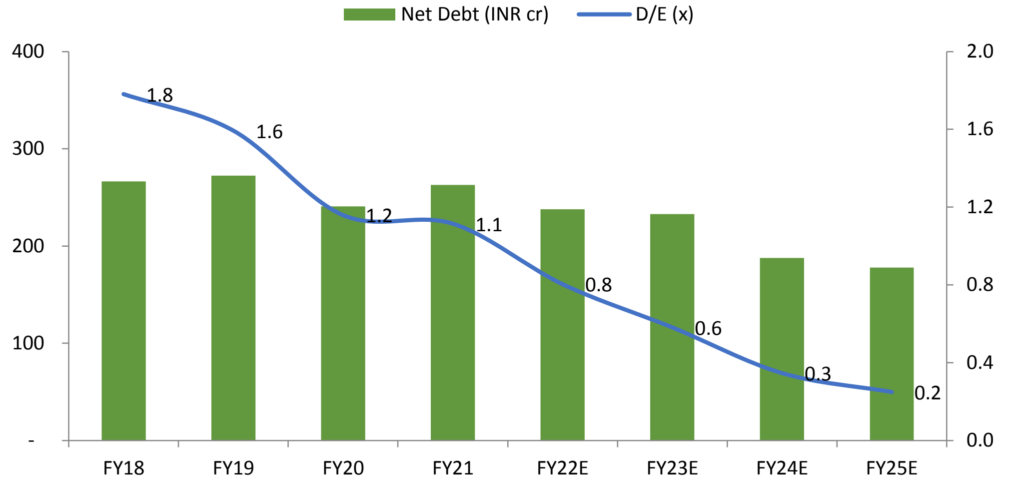
Source: Company, Arihant Capital Research



Source: Company, Arihant Capital Research

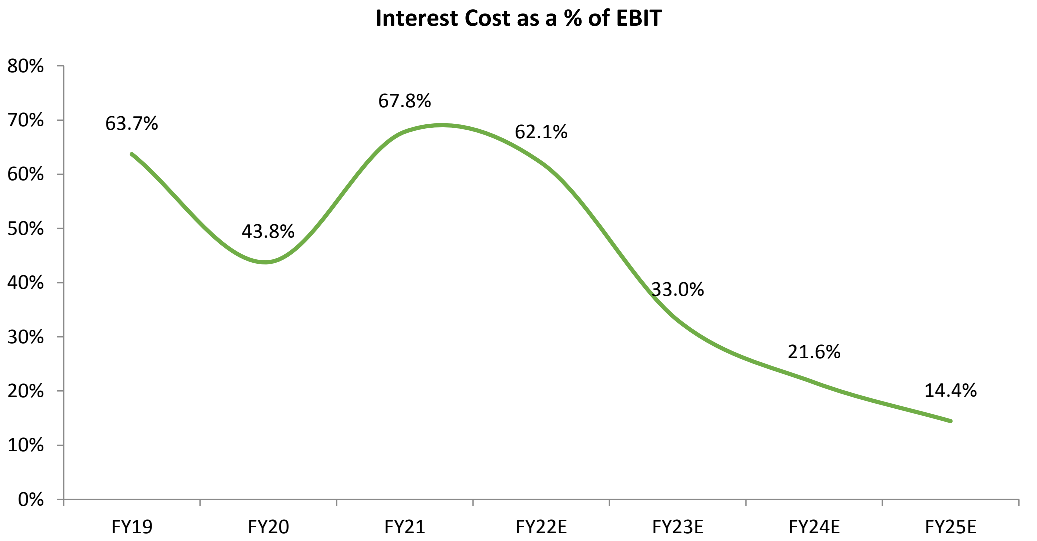
Financial Analysis

Debt reduction leads to strengthening Balance Sheet: Net debt has reduced from INR 266cr (FY18) to INR 263cr in FY21 and Debt to Equity (D/E) ratio reduced to 1.8 (FY18) to 1.1 in FY21. The debt to equity mix for the capex 50:50 in going forward. After the capex, the company's revenue is expected to reach around INR 1,700cr to INR 1,800cr in FY25E and PAT is expected to reach INR 172cr in FY25E. The company is expected to have sufficient cash to repay the debt along with interest. The company will continue to reduce the debt going forward.



Source: Company, Arihant Capital Research

The debt reduction will lead to reducing the interest cost in terms of EBIT.



Source: Company, Arihant Capital Research

Q3FY22 Result update

Income statement summary

Y/e 31 Mar (INR cr)	Q3FY21	Q2FY22	Q3FY22	YoY (%)	QoQ (%)
Revenue	151	242	265	75.0%	9.3%
Net Raw Materials	97	169	194	100.1%	14.5%
Employee Cost	16	21	20	23.0%	-4.0%
Other Expenses	13	17	17	28.4%	-1.9%
EBITDA	**25**	**35**	**34**	**36.0%**	**-2.2%**
EBITDA (%)	**16.7%**	**14.5%**	**12.9%**	**-372 bps**	**-152 bps**
Depreciation	8	9	9	21.2%	1.3%
Interest expense	8	8	10	28.4%	20.6%
Other income	0.4	0.3	0.6		
Profit before tax	**10**	**18**	**16**	**54.3%**	**-12.5%**
Taxes	3	5	4		
Net profit	**7**	**13**	**12**	**58.9%**	**-11.0%**
Other Comprehensive income	0.1	0.8	0.3		
Net profit	**7**	**14**	**12**	**61.3%**	**-14.0%**
Net profit Margin (%)	**4.8%**	**5.7%**	**4.5%**	**-38 bps**	**-121 bps**
EPS (INR)	**2.3**	**4.0**	**3.6**		

Source: Company Reports, Arihant Capital Research

Key Takeaways

Q3FY22 results: Pitti Engineering reported strong numbers, revenue grew by 75% YoY (up by 9.3% QoQ) to INR 265cr. The growth majorly driven by adequate capacity utilization, better sales per tonne realization and strong execution of orders from clients. EBITDA grew by 36% YoY (down by 2.2% QoQ) to INR 34cr, EBITDA margin contracted by 372 bps to 12.9%. EBITDA margin contraction is mainly due to increase in raw material prices. Revenue grew by 75% YoY while raw material cost grew by 100.1%. PAT grew by 61.3% YoY (down by 14% QoQ), PAT margin contracted by 38 bps to 4.5% in Q3FY22.

Order book: The company order book stood at INR 987cr as on 31st Dec, 2021.

Capex: The company is on track of its expansion in Aurangabad plant. The incremental addition starts from Q1FY23E and expects to complete by end of FY24E. post completion of capex, the capacity would be around 72,000 MTPA.

LOI from Customers: In EV space, the company has received Letter of Intent (LOI) for supply of stator and rotors from reputed e-bicycles and 2 wheelers manufacturers. The LOI received from power tool manufacturer for sample order to supply components for power motors. The company also getting new inquiries and is correspondingly doing product development which are converting into LOI and pilot orders. The inquiries are majorly coming from EV power tools, e-mobility and other new end user applications. The company also received significant approvals from certain products from Indian railways having potential high volume runners in the future.

Particular	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Installed Capacity (Per quarter)	9,000	9,000	9,000	9,900	10,017	10,250
Machine Shop (Hours per quarter)	90,700	90,700	90,700	90,700	90,700	94,299
Production - Lamination (MT)	5,447	7,256	6,602	6,052	8,826	8,600
Sales (MT)	5,651	6,674	6,806	6,146	8,610	8,542
Capacity Utilization (%)	**60.5%**	**80.6%**	**73.4%**	**61.1%**	**88.1%**	**83.9%**
Blended Sales Realization (INR/ metric ton)	2,38,808	2,26,733	2,50,284	2,85,351	2,81,332	3,10,036
Blended EBITDA (INR/ metric ton)	42,521	37,776	39,264	45,477	40,693	40,126

Source: Company, Arihant Capital Research

Key Risks

Revenue Concentration: The top 5 clients contribute 50% to 55% of revenue of the company. The higher concentration of revenue arises risk for the company. If any clients chosen other alternatives or Pitti Engineering may not able to retain the clients in going forward. It may impact severely in revenue of the company.

The company may not able to completely pass through raw material cost to customers: The company having price variation clause with customers on quarterly basis. Raw material prices are fixed for the quarter for both input and output, the prices is held to the customers for full quarter. The raw material prices having higher volatility and moving 10% to 15% upside/downside on monthly basis due to global uncertainty. So the company may not able to mitigate the change in raw material prices.

Source: trading economics, Arihant Capital Research

Capacity utilization: The company currently operating around 80% of capacity utilization which is heathy and adequate utilization. The company currently having a capacity of 41,000 MTPA and current on track of capex to increasing the capacity of 72,000 MTPA. The increase in capacity, the company may not able to operate 80% of the capacity on immediate basis. The capacity is based on clients orders and other factors.

Client orders: The company having order book worth of INR 987cr in Q3FY22. The company repeatedly getting orders from existing clients. The company may not get sufficient orders from customers for various reasons.

Covid-19 Impact: The rise in covid cases might cause the government to impose lockdowns at country levels which will impact plant operations and movement of goods This could adversely impact revenue of the business

Valuation & Outlook

PEL is engaged in manufacturing of Electrical steel laminations, Motor cores, Sub assemblies, Die-Cast rotors, Press Tools and machining of metal components. The company is currently undergoing INR 270cr capex to increase the capacity in Aurangabad plant to meet industry demands. After the capex, the capacity would be 72,000 MTPA and expected to operate 80% of utilization in going forward. The capex is expected to complete by end of FY24E and company is expected to reach the revenue of INR 1,700cr to INR 1,800cr levels in FY25E.

Particular	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Installed Capacity (MTPA)	32,000	33,000	36,000	36,000	36,000	41,000	52,000	72,000	72,000
Machine Shop (Hours per Annum)	2,47,000	2,47,600	2,47,600	2,47,600	3,62,800	3,77,196	5,00,000	6,00,000	6,00,000
Production - Lamination (MT)	18,145	19,234	25,115	21,435	21,708	32,390	41,600	50,400	57,600
Sales (MT)	18,776	18,799	27,381	22,122	21,561	31,500	40,768	49,392	56,448
Sales/Production (%)	103%	98%	109%	103%	99%	98%	98%	98%	98%
Capacity Utilization (%)	57%	58%	70%	60%	60%	79%	80%	70%	80%
Revenue (INR cr)	**286**	**379**	**622**	**525**	**518**	**918**	**1,210**	**1,494**	**1,739**
Blended Sales Realization (INR per metric ton)	1,65,896	1,52,081	1,38,341	2,81,265	2,43,524	2,87,671	2,93,103	2,98,611	3,04,196
Blended EBIDTA (INR per metric ton)	17,861	28,983	32,906	35,131	36,197	42,000	42,500	43,000	43,500

Source: Company, Arihant Capital Research

The capex will reach the capacity to 72,000 MTPA by end of FY24E, the company will not reach immediately to 80% capacity utilization for the full year. So, we are estimated 70% capacity utilization for FY24E.

The company has relationship with customers and supplying the components as per their requirements. The order book stood at INR 987cr as on Q3FY22.

The company focused on capacity expansion and order execution and getting new orders from customers. The company have integrated manufacturing plants with cutting edge technology, differentiated product offering, Marquee clients, Global supply chain, diversifies end industries with higher demand would lead the growth in going forward.

We have used a DCF Model value Pitti Engineering Ltd, it has healthy and consistent cash flow generation over the forecasted period. We have discounted the cash flows using WACC and value the company at INR 438 per share. We initiate coverage with a “BUY” rating at a Target Price of INR 438 per share; an upside of 42.6%.

Valuation & Outlook

DCF Valuation

Valuation Assumptions	
g (World Economic Growth)	3%
Rf	7%
Rm	12%
Beta	1.4
CMP (INR)	307

Valuation Data	
Total Debt (long term borrowings) (2021)	54
Cash & Cash Equivalents (2021)	9
Number of Diluted Shares (2022)	3
Tax Rate (2022)	27%
Interest Expense Rate (2022)	13%
MV of Equity	984
Total Debt	54
Total Capital	**1,039**

WACC	
We	94.8%
Wd	5.2%
Ke	14.4%
Kd	9.5%
WACC	**14.1%**

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
Year	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
EBIT * (1-Tax Rate)	72	104	138	166	173	184	194	205	214	224	232	240
Dep	28	34	42	44	45	47	51	53	56	58	60	62
Purchase of Assets	(1)	(76)	(97)	(22)	(22)	(22)	(24)	(25)	(26)	(27)	(28)	(29)
Changes in Working Capital	12	(31)	21	(2)	12	(17)	(2)	(2)	(3)	(3)	(3)	(3)
FCFF	111	31	104	186	208	192	219	230	241	252	261	270
Terminal Value											2,497	
Total Cash Flow	**111**	**31**	**104**	**186**	**208**	**192**	**219**	**230**	**241**	**252**	**2,759**	

Enterprise Value (EV)	**1,449**
Less: Debt	**54**
Add: Cash	**9**
Equity Value	**1,403**
Equity Value per share (INR)	**438**

% Returns	**42.6%**

Rating	**BUY**

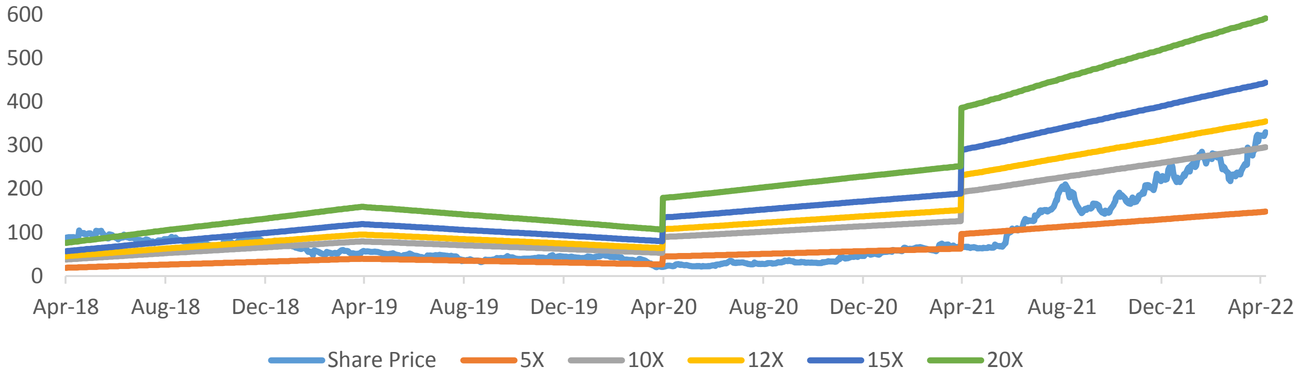
Sensitivity of Target Price to Terminal growth % and WACC

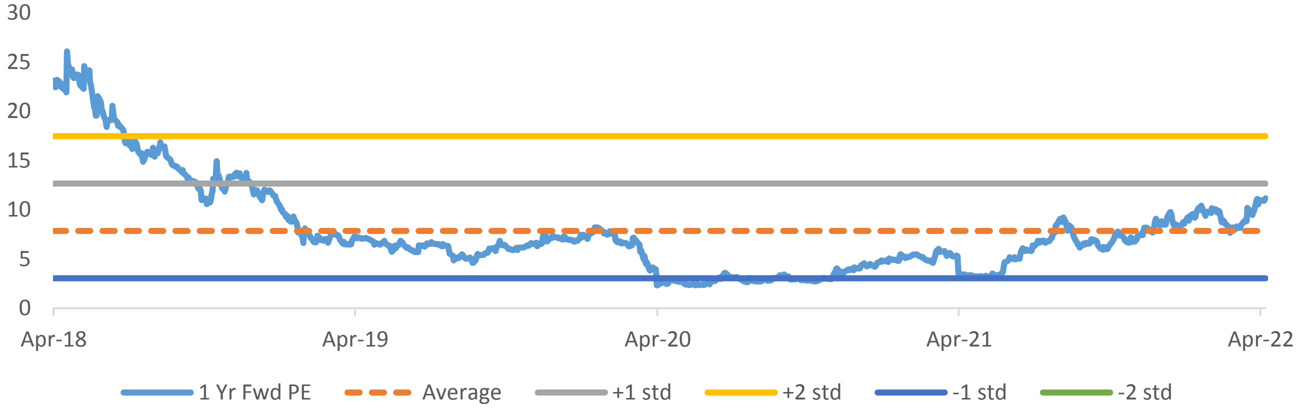
WACC (%)	Terminal Growth (%)								
438	2.3%	2.6%	2.8%	3.1%	3.3%	3.6%	3.8%	4.1%	4.3%
13.0%	468	475	482	490	498	506	515	524	534
13.3%	456	462	469	476	483	491	499	507	516
13.5%	443	449	455	462	469	476	**484**	492	500
13.8%	431	437	443	449	456	**462**	470	477	485
14.0%	420	426	431	437	**443**	449	456	463	470
14.3%	410	415	420	**425**	431	437	443	450	457
14.5%	399	404	**409**	414	419	425	431	437	443
14.8%	389	394	398	403	408	414	419	425	431
15.0%	380	384	389	393	398	403	408	414	419

Source: Company, Arihant Capital Research, Figures are in INR cr, except share price and percentage data

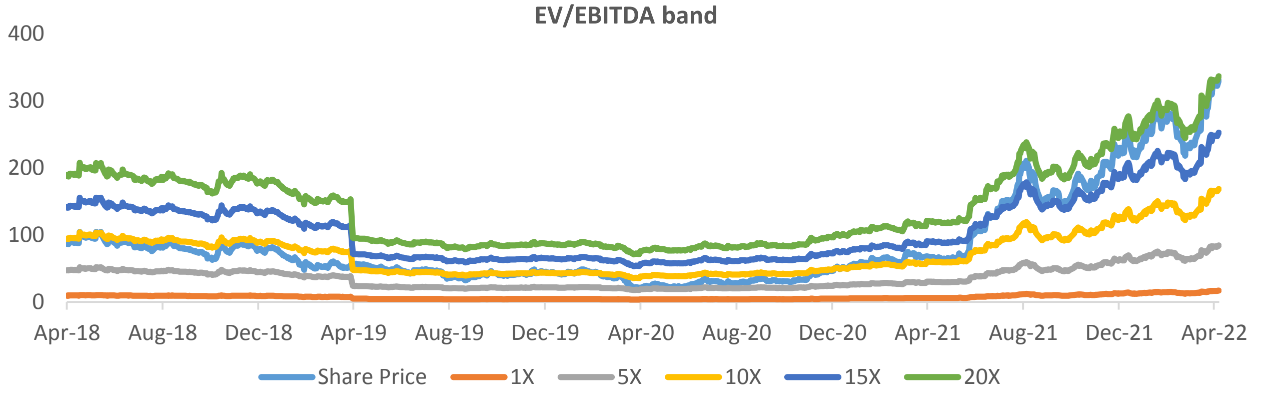
Valuation Plot

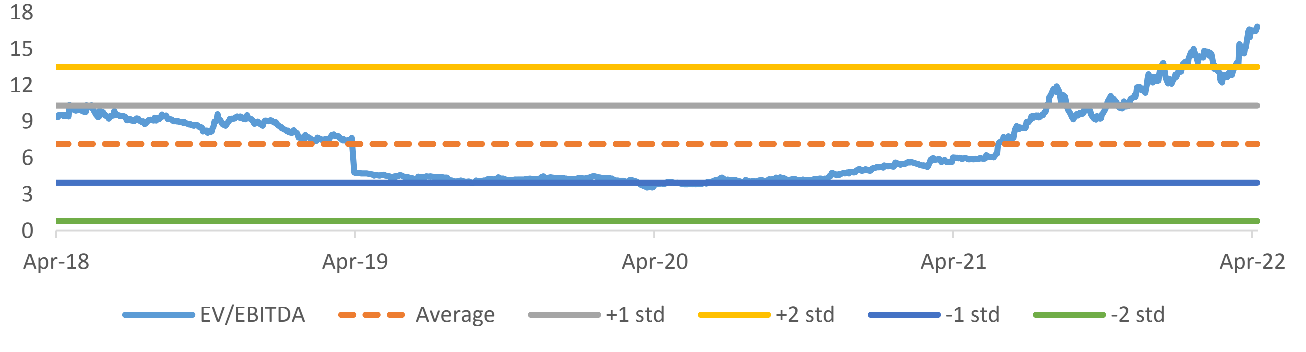
PE Valuation Plot





EV/EBITDA Valuation Plot





Source: Company, Arihant Capital Research

Peer Comparison

Company	Founded	Plant Locations	Products & Services	Capacity	Marquee Clients
Pitti Engineering Ltd	1983	1) Hyderabad, Telangana 2) Aurangabad, Maharashtra	1) Electrical Steel Laminations for various Industries 2) Stator & Rotors 3) Motor Cores 4) Sub-Assemblies 5) Die Cast Rotors 6) Press Tools & Machining of Metal Components 7) Shafts	41,000 MTPA (72,000 MTPA is expected to reach by H1FY24)	1) Wabtec 2) ABB 3) Cummins 4) Crompton 5) Toshiba 6) Crompton
Magcore	1987	Bangalore	1) Electrical Stampings 2) Electrical Home Appliances Stampings 3) Die Cast Rotors 4) Transformer Laminations	-	1) ABB Ltd 2) CGL (Crompton greaves Ltd) 3) BHEL (Bharat heavy electrical Ltd) 4) Weg India Ltd 5) KILOSKAR Ltd.
Kapsons Industries	1980	1) Jalandhar 2) Pune	1) Electrical Stampings 2) Aluminium pressure Die castings 3) Copper wire and Strips 4) Motor components	20,000 MTPA	1) Voltas Ltd 2) CGL (Crompton greaves Ltd) 3) Kirloskar Electric Ltd 4) Kirloskar Ltd 5) KSB Pumps Ltd 6) Otis Elevator Ltd
Pearl Engineering	1982	Delhi	1) Electrical Motor Stampings 2) Alternator Stampings 3) Fan Stator Stampings 4) Wind Mill generator Stampings 5) Washing Machine Motor Stampings 6) Traction Motor Stampings 7) Die Cast Stampings 8) Starter Motor Stampings 9) Elevator Motor Stampings 10) Water Pump Stampings	24,000 MTPA	Around 100 clients (including Marquee Clients)
Tempel steel	1945	1) Burlington, Canada 2) Changzhou, China 3) Chennai, India 4) Chicago, USA 5) Monterrey, Mexico 6) East Coast & West Coast Distribution Centre, USA	1) Automotive 2) Motor & Generator 3) Transformer 4) The Temple Difference 5) Material Selection 6) Prototype Services 7) Tooling & Quality Production 8) Value-Added Benefits, Core Assembly	-	-
Craftsman automation	1986	Coimbatore	1) Auto Motive Powertrain - Cylinder Block, Cylinder Head, Camshafts, Transmission housings etc. 2) Auto Motive Aluminium - High & Low pressure Die Casting, Gravity Die Casting 3) Industrial Engineering - High end sub assembly, Contract Manufacturing etc.	Powertrain - 7.4 million units per annum	1) Ashok Leyland Defence 2) BEML 3) Simens Ltd 4) ELGI Equipment Ltd 5) Revathi Equipment Ltd 6) Atlas Copco
SD Industry	1984	Mumbai, Maharashtra	1) Double ferrule compression tube fittings 2) 37 degree flare fittings 3) Flareless tube fittings 4) Pipe fittings 5) Needle valves 6) Manifolds valves 7) Ball valves	-	-

Source: Company, Arihant Capital Research

Marquee Clients – we are given major clients details, for more details please refer company filings

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Revenue	379	622	525	518	918	1,210	1,494	1,739
Net Raw Materials	247	429	345	335	624	811	986	1,145
Consumption of Stores, Spares, Tools & Dies	7	9	12	11	19	24	28	35
Employee Cost	36	52	55	56	83	110	136	159
Other Expenses	35	42	36	37	65	90	112	130
EBITDA	**54**	**90**	**78**	**78**	**127**	**176**	**232**	**270**
EBITDA (%)	**14.4%**	**14.5%**	**14.8%**	**15.1%**	**13.8%**	**14.6%**	**15.5%**	**15.6%**
Depreciation	(18)	(22)	(27)	(30)	(28)	(34)	(42)	(44)
Interest expense	(23)	(30)	(34)	(30)	(33)	(31)	(27)	(24)
Other income	3	2	4	20	17	34	35	35
Profit before tax	**16**	**40**	**20**	**39**	**82**	**145**	**197**	**238**
Taxes	(5)	(17)	(3)	(10)	(22)	(41)	(55)	(67)
Net profit	**11**	**24**	**17**	**29**	**60**	**105**	**142**	**172**
Reported Netprofit Margin (%)	**3.0%**	**3.8%**	**3.3%**	**5.5%**	**6.6%**	**8.6%**	**9.5%**	**9.9%**
Other Comprehensive income	0	(1)	(0)	(1)	-	-	-	-
Net profit	**12**	**23**	**17**	**28**	**60**	**105**	**142**	**172**
EPS (INR)	4	8	5	9	19	33	44	54

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Equity capital	15	15	16	16	16	16	16	16
Reserves	135	156	192	220	280	385	527	698
Net worth	**150**	**171**	**208**	**236**	**296**	**401**	**543**	**714**
Provisions	7	7	34	74	35	43	49	57
Debt	266	272	241	263	238	233	188	178
Other non-current liabilities	10	17	11	10	18	24	30	35
Total Liabilities	**432**	**467**	**494**	**583**	**587**	**701**	**809**	**984**
Fixed assets	197	220	212	193	166	208	262	240
Capital Work In Progress	9	5	8	1	1	1	2	2
Other Intangible assets	5	7	11	18	18	18	18	18
Investments	20	17	42	95	110	145	179	209
Other non current assets	4	7	4	8	14	16	18	21
Net working capital	**184**	**196**	**200**	**258**	**247**	**278**	**257**	**259**
Inventories	129	100	127	157	231	267	297	329
Sundry debtors	137	182	139	172	138	182	205	214
Loans & Advances	1	-	0	0	0	0	0	0
Other current assets	33	31	36	48	63	83	82	95
Sundry creditors	(108)	(104)	(97)	(105)	(163)	(227)	(294)	(342)
Other current liabilities & Prov	(9)	(14)	(6)	(13)	(23)	(28)	(33)	(38)
Cash	14	14	15	9	30	33	71	233
Other Financial Assets	1	1	1	0	2	2	3	3
Total Assets	**432**	**467**	**494**	**583**	**587**	**701**	**809**	**984**

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Profit before tax	16	40	20	39	82	145	197	238
Depreciation	18	22	27	30	28	34	42	44
Tax paid	(5)	(17)	(3)	(10)	(22)	(41)	(55)	(67)
Working capital Δ	(56)	(12)	(4)	(58)	12	(31)	21	(2)
Operating cashflow	(27)	34	41	1	100	108	205	214
Capital expenditure	(100)	(41)	(23)	(4)	(1)	(76)	(97)	(22)
Free cash flow	(127)	(7)	18	(4)	99	32	108	192
Equity raised	26	(2)	20	(1)	-	-	-	-
Investments	(2)	3	(25)	(53)	(15)	(35)	(34)	(29)
Others	13	(6)	(2)	(9)	(8)	(3)	(3)	(3)
Debt financing/disposal	83	6	(32)	22	(25)	(5)	(45)	(10)
Other items	9	7	22	39	(31)	14	12	13
Net Δ in cash	3	0	1	(6)	21	3	38	162
Opening Cash Flow	11	14	14	15	9	30	33	71
Closing Cash Flow	14	14	15	9	30	33	71	233

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Growth matrix (%)								
Revenue growth	32.5%	64.3%	-15.6%	-1.3%	77.2%	31.9%	23.4%	16.4%
Op profit growth	62.5%	65.4%	-13.7%	0.4%	62.3%	39.0%	31.5%	16.8%
Profitability ratios (%)								
OPM	14.4%	14.5%	14.8%	15.1%	13.8%	14.6%	15.5%	15.6%
Net profit margin	3.0%	3.8%	3.3%	5.5%	6.6%	8.6%	9.5%	9.9%
RoCE	7.6%	9.4%	10.0%	9.6%	14.7%	20.3%	22.2%	21.8%
RoNW	8.6%	14.8%	9.0%	13.0%	22.6%	30.0%	30.1%	27.3%
RoA	2.6%	5.1%	3.5%	4.9%	10.2%	14.9%	17.5%	17.4%
Per share ratios (INR)								
EPS	3.9	7.7	5.3	8.7	18.8	32.6	44.3	53.6
Cash EPS	9.7	15.5	13.9	18.4	27.6	43.3	57.4	67.2
Book value per share	50.1	57.3	64.8	73.6	92.3	125.0	169.3	222.8
Valuation ratios (x)								
P/E	79.3	40.1	58.5	35.2	16.4	9.4	6.9	5.7
P/CEPS	31.7	19.9	22.1	16.6	11.1	7.1	5.3	4.6
P/B	6.1	5.4	4.7	4.2	3.3	2.5	1.8	1.4
EV/EBITDA	21.1	12.8	15.0	14.6	8.5	5.9	4.0	2.7
Payout (%)								
Tax payout	30.9%	41.2%	13.9%	25.4%	27.0%	28.0%	28.0%	28.0%
Liquidity ratios								
Debtor days	109	94	112	110	62	48	47	44
Inventory days	189	98	120	154	113	112	104	100
Creditor days	120	73	82	84	62	69	75	79
WC Days	178	119	150	180	113	92	76	65
Leverage ratios (x)								
Interest coverage	1.6	2.3	1.5	1.6	3.0	4.6	6.9	9.5
Net debt / equity	1.7	1.5	1.1	1.1	0.7	0.5	0.2	-0.1
Net debt / op. profit	4.6	2.9	2.9	3.3	1.6	1.1	0.5	-0.2

Source: Company Reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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