

CMP: INR 308

Rating: BUY

Target Price: INR 441

Stock Info

BSE	513519
NSE	PITTIENG
Bloomberg	PITTIENG:IN
Reuters	PITE.NS
Sector	Capital Goods
Face Value (INR)	5
Equity Capital (INR cr)	16
Mkt Cap (INR cr)	987
52w H/L (INR)	375 / 202
Avg Yearly Volume (in 000')	177.6

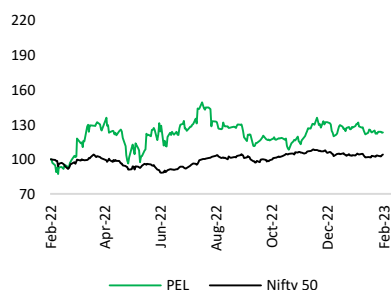
Shareholding Pattern %

(As on Dec, 2022)

Promoters	59.29
DII	5.53
FII	0.10
Public & Others	35.07

Stock Performance (%)	3m	6m	12m
PEL	6.7	-7.2	22.8
NIFTY	-2.1	1.1	3.5

PEL vs Nifty



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Pitti Engineering Ltd reported numbers, Q3FY23 revenue stood at INR 238cr (-10.1% YoY/-21.8% QoQ) vs our estimates of INR 265cr. Gross Profit stood at INR 79Cr (+11.3% YoY/-2.9% QoQ), Gross margins improved by 639 bps YoY (up by 645 bps QoQ) to 33.2% vs 26.8% in Q3FY22. The raw material cost in terms of sales stood at 66.8% vs 73.2% in Q3FY22. EBITDA stood at INR 39cr (+13.3% YoY/+6.2% QoQ); In-line with our estimates of INR 39cr. EBITDA margin improved by 337 bps YoY (up by 430 bps QoQ) to 16.3% vs 12.9% in Q3FY22. PAT stood at INR 12.1cr (+5.3% YoY/+19.4% QoQ); vs our estimates of INR 12.7cr. PAT margin improved by 75 bps YoY (up by 176 bps QoQ) to 5.1% vs 4.3% in Q3FY22.

Key Highlights

Capacity is expected to complete by Q2FY24: The total sheet metal capacity stood at 50,200 tonnes per annum. The construction of the new shed and other expansion work is on track. The company has given advance to supplier for importing machines. Capex spent around INR 75cr in 9MFY23. Out of INR 270cr capex, ~INR 60cr capex is left and expected to complete in Q2FY24. The company is expected to reach 72,000 tonnes per annum by the end of Q2FY24. The machining hours stood at 4,03,200 hours. The company is expected to reach 6,48,000 machining hours going forward.

Witnessed working capital improvement due to optimum RM and finished goods: The softening of raw material prices and easing of supply chain bottlenecks led to a reduction in working capital by maintaining optimal raw material and finished goods. The working capital was reduced by ~INR 86cr on a QoQ basis. The company also focused on addressing domestic demand and reach 80% of the sales, which further lead to improvement in the working capital cycle.

Improvement in realization backed by value-added components: In Q3FY23, Sales realization per tonne stood at INR 2,60,064 (-16.1% YoY/-24.7% QoQ) due to softening of raw material costs. The volume grew by 7.1% YoY (+3.9% QoQ) to 9,150 tonnes. The assembled & value-added and loose lamination mix stood at 73:27 vs 68:32 in Q3FY22. EBITDA per tonne realization grew by 5.7% YoY (+2.3% QoQ) to INR 42,425, driven by volume growth in assembled and value-added components.

New orders for shafts, EVs, and Hydro will accelerate growth: The company has bagged orders for making shafts for various applications in freight locomotives. The revenue potential is expected \$1 mn per year over the next 10 years. The company has developed laminations of 1200MW and 1440MW pump storage and machine application for large hydro customers. These machines have a dual purpose of power generation and water pumping. The company has received LOI for manufacturing parts used in EVs. The automotive segment is expected to pick up and significant supply is expected over the next couple of years.

Outlook & Valuation: PEL is expected to complete the Capex of 72,000 MTPA by Q2FY24, increase in realizations due to higher assembled and value-added components and softening of RM costs, the highest capital outlay of INR 2.4 lakh cr & strong demand from railways, pick-up from EV, strong order execution, debt reduction and getting new orders from customers will be the key triggers. PEL has integrated manufacturing plants with cutting-edge technology, differentiated product offerings, marquee clients, and diversified end industries that will lead growth going forward. Based on DCF, we have a "BUY" rating with a Target Price of INR 441 per share; an upside of 43.1%.

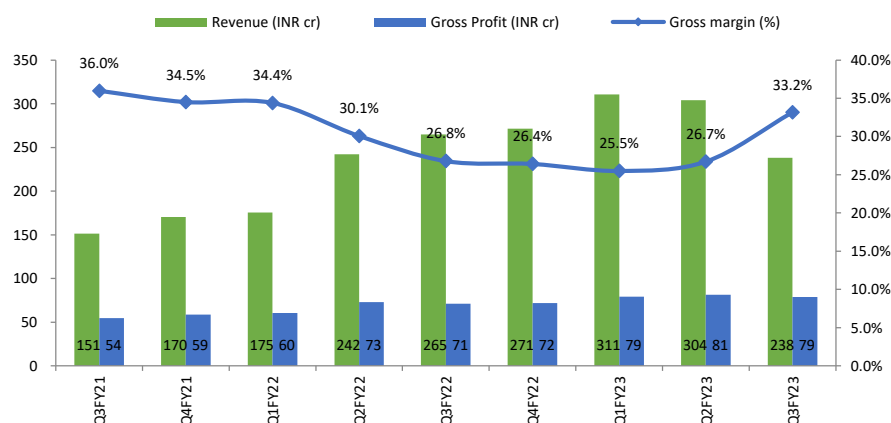
Q3FY23 Results

Income statement summary

Particular (INR cr)	Q3FY22	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Revenue	265	304	238	-10.1%	-21.8%
Net Raw Materials	194	223	159	-18.0%	-28.6%
Employee Cost	20	23	22	10.1%	-6.4%
Other Expenses	17	22	18	8.7%	-14.5%
EBITDA	34	37	39	13.3%	6.2%
EBITDA Margin (%)	12.9%	12.0%	16.3%	+337 bps	+430 bps
Depreciation	9	11	11		
Interest expense	10	12	12		
Other income	0.6	0.4	1.1		
Profit before tax	16	14	17		
Taxes	4	4	5		
PAT	12	10	12	5.3%	19.4%
PAT Margin (%)	4.3%	3.3%	5.1%	0.75%	1.76%
Other Comprehensive income	0.3	0.2	0.1		
Net profit	12	10	12	3.5%	18.1%
Net profit Margin (%)	4.5%	3.4%	5.1%	0.68%	1.74%
EPS (INR)	3.6	3.2	3.8		

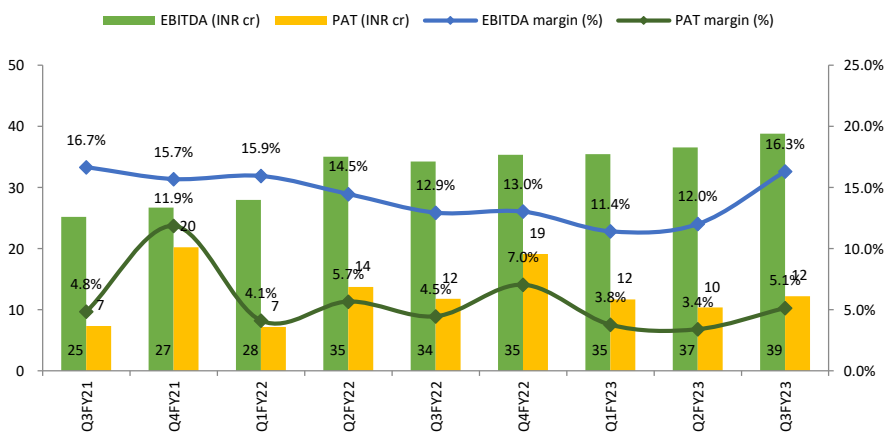
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Margins were improved due to softening of raw material prices.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: Margins were improved, however employee costs and other expenses remain elevated.

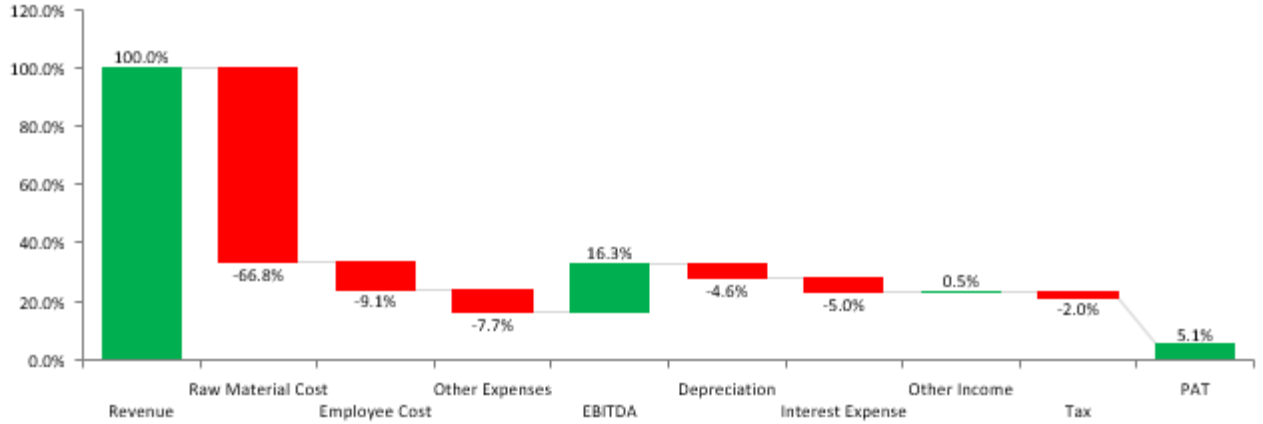


Source: Company Reports, Aриhant Capital Research

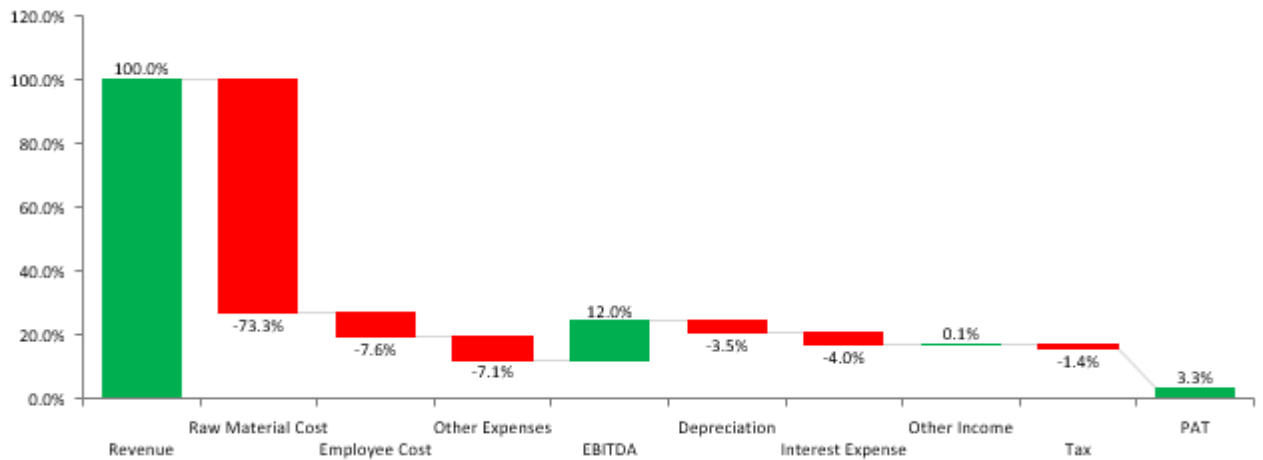
Quarterly results P&L breakup

Exhibit 3: The softening raw material prices resulted margin improvement.

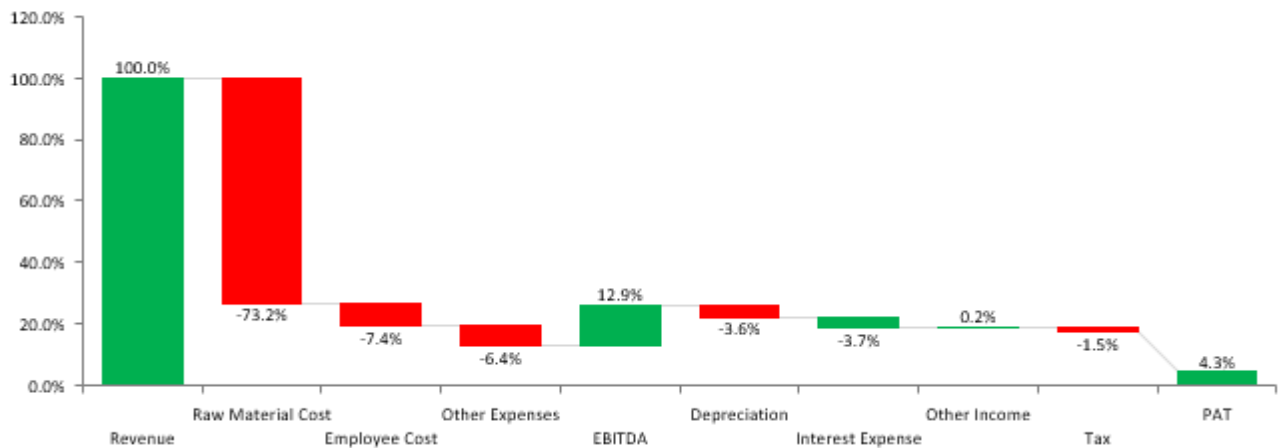
P&L statement breakup - Q3FY23



P&L statement breakup - Q2FY23



P&L statement breakup - Q3FY22

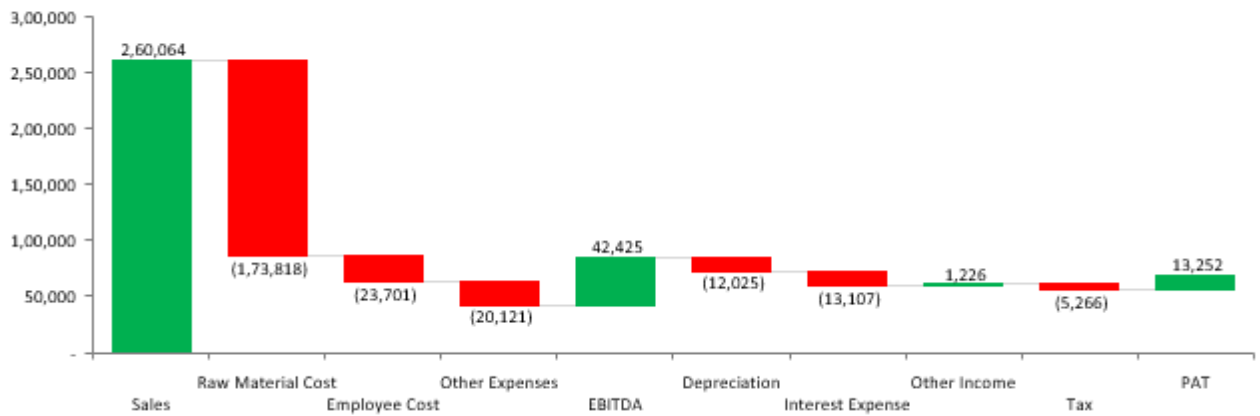


Source: Company Reports, Arihant Capital Research

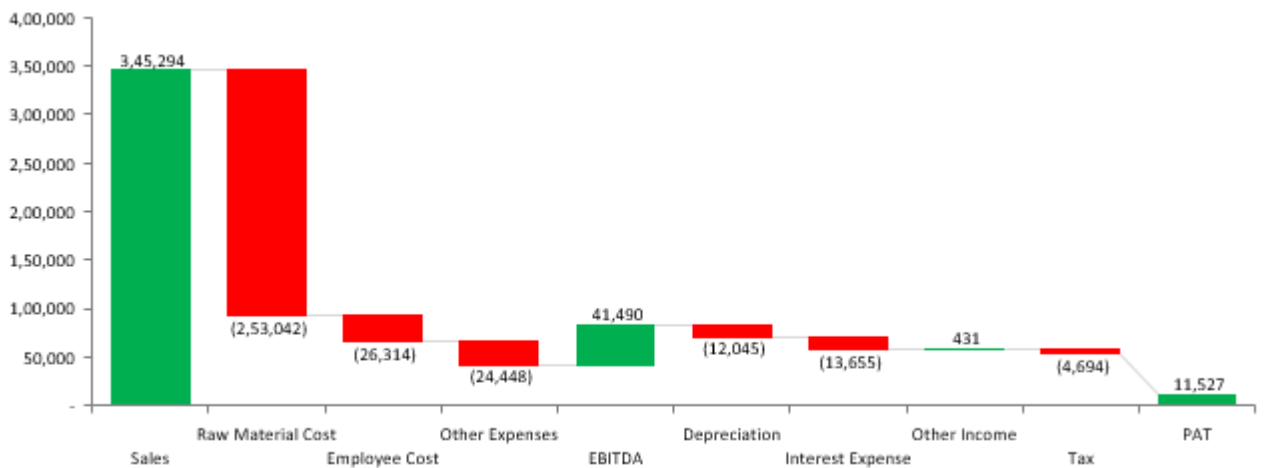
Quarterly results per tonne breakup

Exhibit 4: Sales per tonne declined due to softening of raw material costs and EBITDA per tonne improved due to assembled & value added products volume growth and realization.

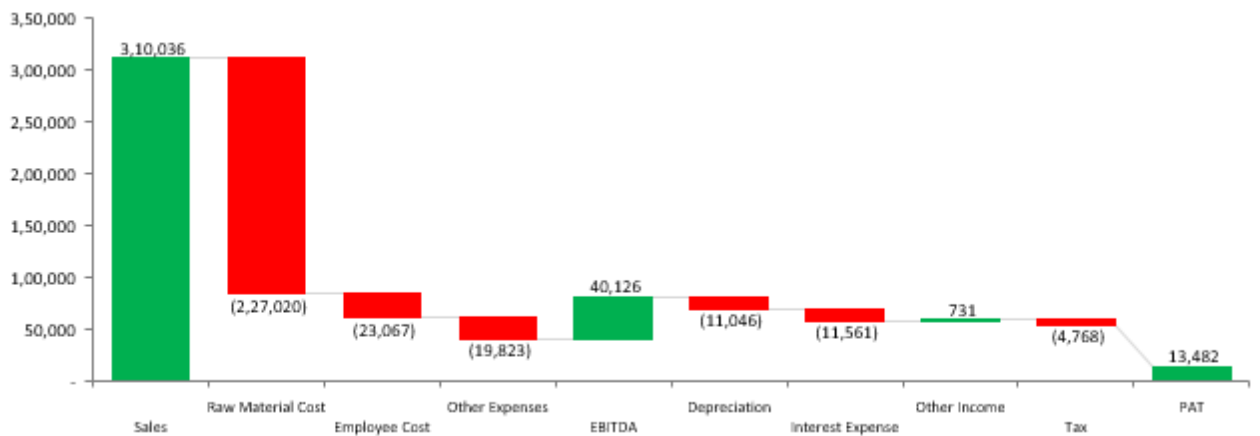
Per tonne (INR) - Q3FY23



Per tonne (INR) - Q2FY23



Per tonne (INR) - Q3FY22

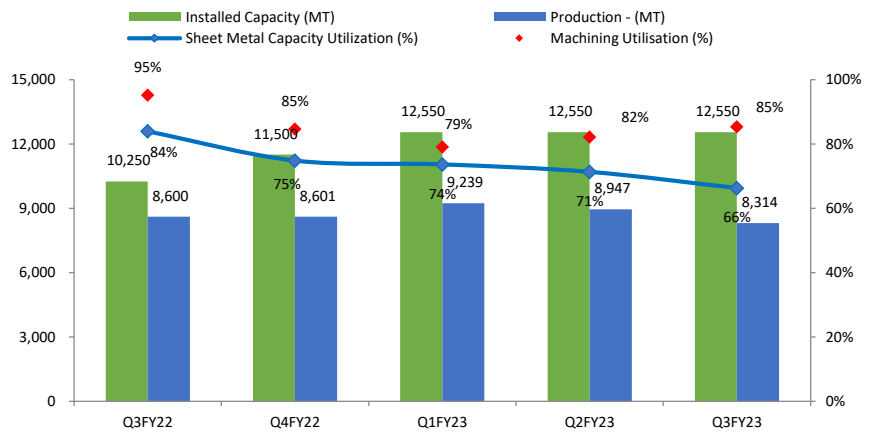


Source: Company Reports, Arianth Capital Research

Q3FY23 Concall Highlights

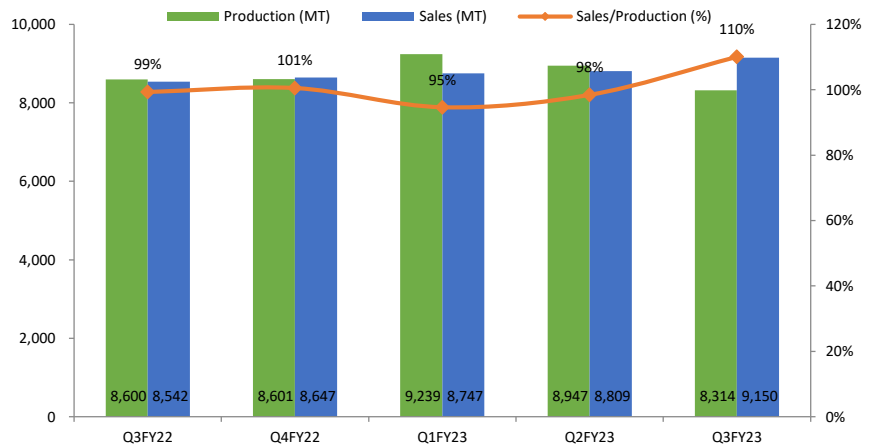
- The order book stood at INR 884cr as of Q3FY23.
- Around 20% volume growth is expected in FY24.
- The current capacity stood at 50,200 MTPA as of Q3FY23 and is expected to reach 72,000 MTPA by Q2FY24.
- The company has developed laminations of 1200MW and 1440MW pump storage and machine application for large hydro customers. These machines have a dual purpose of power generation and water pumping.
- The company got a new LOI for manufacturing parts used in EVs.
- The company has bagged orders for making shafts for various applications in freight locomotives. The revenue potential is expected \$1 mn per year over the next 10 years.
- In EV, significant supply is expected in the next couple of years. Around INR 30cr to INR 40cr revenue is expected in the next 2 years.
- One of the clients got a 9000 HP major order from railways. The company is expected to benefit going forward.
- Around INR 30cr incentives are expected in Q4FY23.
- The net debt stood at INR 260cr. The long-term debt is less than INR 90cr which is payable in the next 5 years. The interest cost stood at 8% on a blended basis
- Capex spent around INR 75cr in 9MFY23. Out of INR 270cr Capex, INR 60cr Capex is pending which is expected to complete in Q2FY24.
- Machining capacity stood at 4.03 lakh hours and is expected to reach 6.48 lakh hours by Dec-24.
- The 2nd phase Capex of INR 197cr is expected to start from Oct-23 and is expected to complete by 2024. Around INR 60cr Capex is expected to spend in 1st 6 months and around INR 100cr Capex is expected in the next 6 months. The Capex is towards an increase in machining hours, automation, and replacement of existing machines.
- The government has increased the Capex allocation to INR 10 lakh cr (+33.4% YoY) and the railway Capex outlay of 2.4 lakh cr. The company is expected to benefit going forward.
- The company is expected to benefit from Vandhe Bharat trains in the Railways.

Exhibit 5: Machining utilization remaining healthy and sheet metal capacity utilisation is expected to improve going forward.



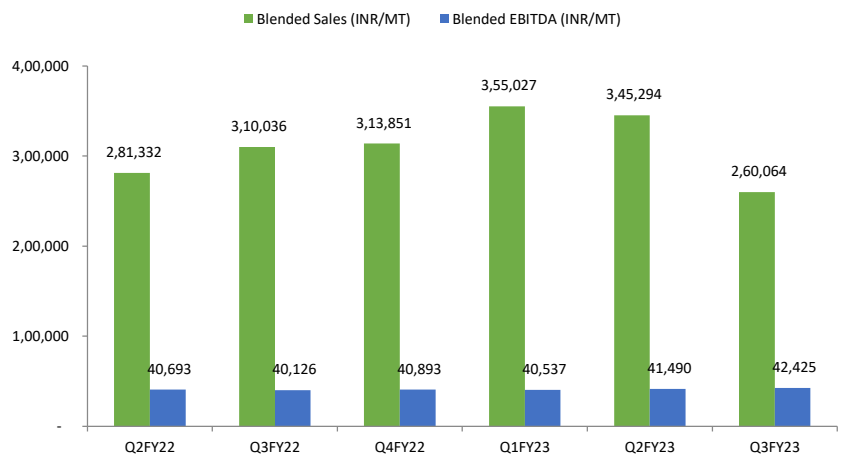
Source: Company Reports, Arihant Capital Research
 Installed capacity is quarterly basis

Exhibit 6: Sales are in-line with production



Source: Company Reports, Arihant Capital Research

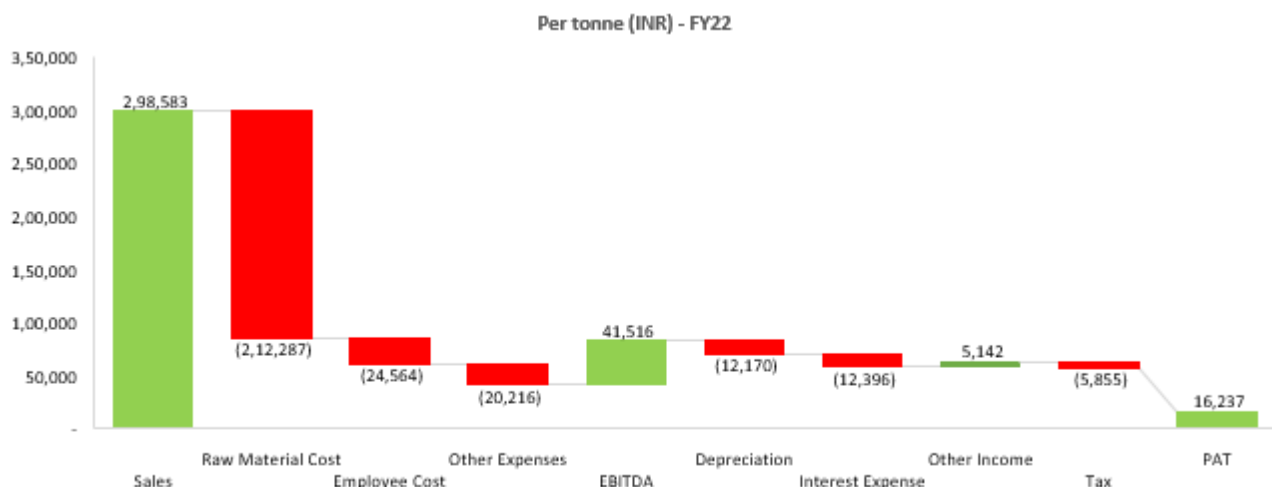
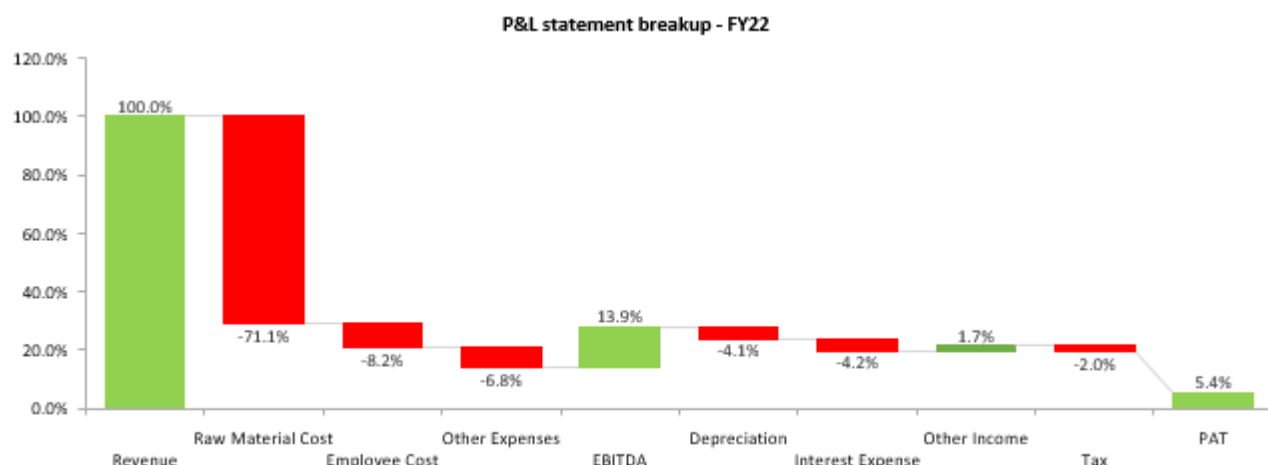
Exhibit 7: Improvement in EBITDA realizations



Source: Company Reports, Arihant Capital Research

P&L breakup – FY22 and Estimates

Exhibit 8: P&L breakup and per tonne – FY22



Source: Company Reports, Arianth Capital Research

Exhibit 9: Sales are expected to reach more than INR 1,800cr by FY25. The current capacity stood at 50,200 MTPA and expected to reach 72,000 MTPA by Q2FY24.

Particular (INR cr)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Installed Capacity - Hyderabad plant	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Installed Capacity - Aurangabad plant	22,000	23,000	26,000	26,000	26,000	36,000	40,200	62,000	62,000
Total Installed Capacity (MTPA)	32,000	33,000	36,000	36,000	36,000	46,000	50,200	72,000	72,000
Machine Shop (Hours per Annum)	2,47,000	2,47,600	2,47,600	2,47,600	3,62,800	4,03,200	4,03,200	6,48,000	6,48,000
Production - Lamination (MT)	18,145	19,234	25,115	21,435	21,708	32,080	36,395	43,200	54,000
Sales (MT)	18,776	18,799	27,381	22,122	21,561	31,945	35,667	42,336	52,920
Sales/Production (%)	103%	98%	109%	103%	99%	99.6%	98.0%	98.0%	98.0%
Capacity Utilization (%)	56.7%	58.3%	69.8%	59.5%	60.3%	69.7%	72.5%	60.0%	75.0%
Sales (INR cr)	286	379	622	525	518	954	1,143	1,479	1,885
EBITDA (INR cr)	34	54	90	78	78	133	159	191	265
EBITDA Margin (%)	11.7%	14.4%	14.5%	14.8%	15.1%	13.9%	13.8%	12.8%	14.0%
Blended Sales Realization (per metric ton)	1,52,267	2,01,496	2,27,243	2,37,349	2,40,326	2,98,583	3,20,397	3,49,232	3,56,217
Blended EBITDA (per metric ton)	17,861	28,983	32,906	35,131	36,197	41,516	44,439	45,038	50,166

Source: Company Reports, Arianth Capital Research

DCF Valuation

Valuation Assumptions		WACC	
g (World Economic Growth)	3%	We	85.8%
Rf	7%	Wd	14.2%
Rm	14%	Ke	16.5%
Beta	1.4	Kd	9.0%
CMP (INR)	308	WACC	15.5%

Valuation Data	
Total Debt (long term borrowings) (2022)	163
Cash & Cash Equivalents (2022)	35
Number of Diluted Shares (2022)	3
Tax Rate (2023)	27%
Interest Expense Rate (2023)	12%
MV of Equity	987
Total Debt	163
Total Capital	1,150

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase				Terminal Yr	
	Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
EBIT * (1-Tax Rate)	84	114	159	187	212	234	255	275	293	309	322	331
Dep	43	51	57	63	68	73	81	87	93	98	102	105
Purchase of Assets	(102)	(68)	(68)	(68)	(62)	(63)	(72)	(77)	(82)	(87)	(90)	(93)
Changes in Working Capital	17	(76)	(70)	25	38	11	29	31	33	35	36	37
FCFF	43	21	78	206	256	256	293	316	337	355	370	381
Total Cash Flow	43	21	78	206	256	256	293	316	337	355	3,428	

Enterprise Value (EV)	1,541
Less: Debt	163
Add: Cash	35
Equity Value	1,413
Equity Value per share (INR)	441

% Returns 43.1%

Rating BUY

Sensitivity of Target Price to Terminal growth and WACC

		Terminal Growth (%)								
		2.3%	2.6%	2.8%	3.1%	3.3%	3.6%	3.8%	4.1%	4.3%
WACC (%)	441									
	14.5%	474	481	488	495	503	510	519	528	537
	14.8%	460	467	473	480	487	495	503	511	519
	15.0%	447	453	459	466	473	480	487	495	503
	15.3%	435	440	446	452	459	466	473	480	487
	15.5%	423	428	434	440	446	452	458	465	472
	15.8%	411	416	422	427	433	439	445	451	458
	16.0%	400	405	410	415	421	426	432	438	445
	16.3%	390	394	399	404	409	414	420	426	432
	16.5%	379	384	388	393	398	403	408	414	419

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

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	525	518	954	1,148	1,486	1,895
Net Raw Materials	345	335	678	822	1,062	1,332
Employee Cost	55	56	78	88	116	155
Other Expenses	48	49	65	80	101	132
EBITDA	78	78	133	159	207	275
EBITDA Margin (%)	14.8%	15.1%	13.9%	13.8%	13.9%	14.5%
Depreciation	(27)	(30)	(39)	(43)	(51)	(57)
Interest expense	(34)	(30)	(40)	(44)	(34)	(31)
Other income	4	20	16	32	36	45
Profit before tax	20	39	71	104	157	233
Taxes	(3)	(10)	(19)	(28)	(42)	(63)
PAT	17	29	52	76	115	170
PAT Margin (%)	3.3%	5.5%	5.4%	6.6%	7.7%	9.0%
Other Comprehensive income	(0)	(1)	0	-	-	-
Net profit	17	28	52	76	115	170
EPS (INR)	5	9	16	24	36	53

Source: Company Reports, Arianth Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	16	16	16	16	16	16
Reserves	192	220	268	344	458	628
Net worth	208	236	284	360	474	644
Provisions	34	74	12	22	28	36
Debt	241	263	401	311	286	246
Other non-current liabilities	11	10	9	23	30	38
Total Liabilities	494	583	706	716	819	965
Fixed assets	212	193	228	285	302	313
Capital Work In Progress	8	1	1	2	2	2
Other Intangible assets	11	18	14	14	14	14
Investments	42	95	18	34	45	57
Other non current assets	4	8	108	69	74	114
Net working capital	200	258	301	284	361	431
Inventories	127	157	272	281	335	420
Sundry debtors	139	172	204	173	224	260
Loans & Advances	0.2	0.2	-	0.1	0.1	0.2
Other current assets	36	48	75	63	81	104
Sundry creditors	(97)	(105)	(220)	(203)	(245)	(311)
Other current liabilities & Prov	(6)	(13)	(30)	(30)	(34)	(42)
Cash	15	9	35	25	19	31
Other Financial Assets	1	0	1	2	3	4
Total Assets	494	583	706	716	819	965

Source: Company Reports, Arianth Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	20	39	71	104	157	233
Depreciation	27	30	39	43	51	57
Tax paid	(3)	(10)	(19)	(28)	(42)	(63)
Working capital Δ	(4)	(58)	(43)	17	(76)	(70)
Operating cashflow	41	1	48	135	89	157
Capital expenditure	(23)	(4)	(73)	(102)	(68)	(68)
Free cash flow	18	(4)	(26)	34	22	89
Equity raised	20	(1)	0	-	-	0
Investments	(25)	(53)	77	(16)	(10)	(12)
Others	(2)	(9)	(97)	38	(6)	(40)
Debt financing/disposal	(32)	22	139	(90)	(25)	(40)
Other items	22	39	(63)	24	13	16
Net Δ in cash	1	(6)	26	(10)	(6)	12
Opening Cash Flow	14	15	9	35	25	19
Closing Cash Flow	15	9	35	25	19	31

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)						
Revenue growth	-1.3%	84.1%	20.4%	29.4%	27.5%	
Op profit growth	0.4%	69.9%	19.5%	30.6%	32.8%	
Profitability ratios (%)						
OPM	14.8%	15.1%	13.9%	13.8%	13.9%	14.5%
Net profit margin	3.3%	5.5%	5.4%	6.6%	7.7%	9.0%
RoCE	10.0%	9.6%	12.8%	15.5%	18.9%	22.4%
RoNW	9.0%	13.0%	20.0%	23.5%	27.5%	30.4%
RoA	3.5%	4.9%	7.3%	10.6%	14.0%	17.6%
Per share ratios (INR)						
EPS	5.3	8.7	16.2	23.6	35.8	53.0
Dividend per share	-	-	1.2	-	-	-
Cash EPS	13.9	18.4	28.3	37.0	51.7	70.8
Book value per share	64.8	73.6	88.6	112.1	148.0	201.0
Valuation ratios (x)						
P/E	58.6	35.3	19.0	13.1	8.6	5.8
P/CEPS	22.2	16.7	10.9	8.3	6.0	4.4
P/B	4.8	4.2	3.5	2.7	2.1	1.5
EV/EBITDA	15.1	14.7	10.1	7.8	5.8	4.2
Payout (%)						
Dividend payout	0.0%	0.0%	7.3%	0.0%	0.0%	0.0%
Tax payout	13.9%	25.4%	26.5%	27.0%	27.0%	27.0%
Liquidity ratios						
Debtor days	112	110	72	60	49	47
Inventory days	120	154	116	123	106	103
Creditor days	82	84	72	78	64	63
WC Days	150	180	115	105	91	87
Leverage ratios (x)						
Interest coverage	1.5	1.6	2.4	2.6	4.5	7.1
Net debt / equity	1.1	1.1	1.3	0.8	0.6	0.3
Net debt / op. profit	2.9	3.3	2.8	1.8	1.3	0.8

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 10: Strong revenue growth in FY22.

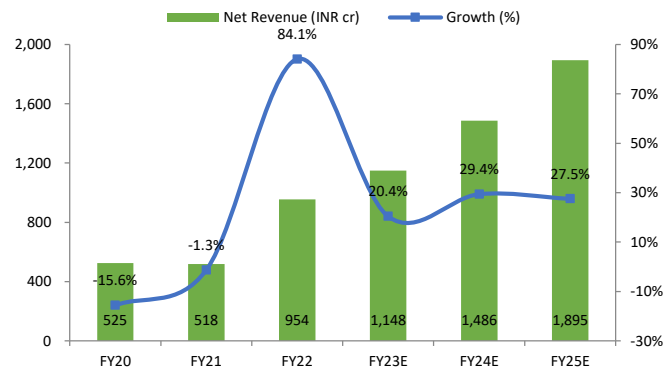


Exhibit 11: Input prices impacted gross margins

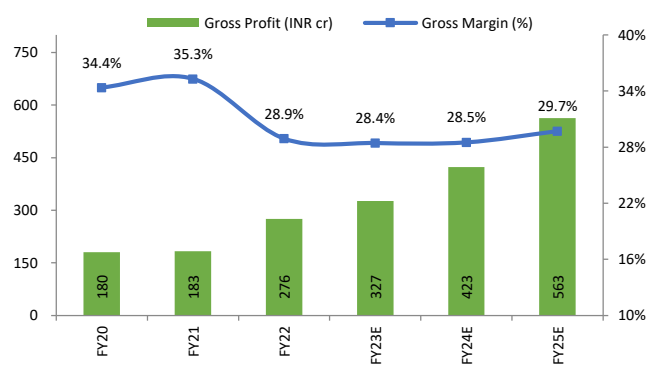


Exhibit 12: Growth in EBITDA & PAT levels

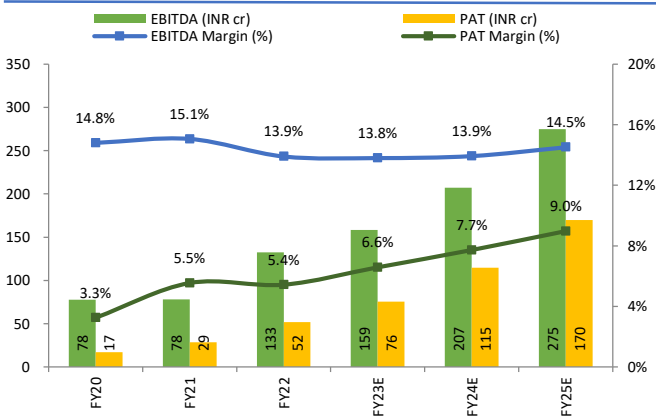


Exhibit 13: Return ratios to be improve

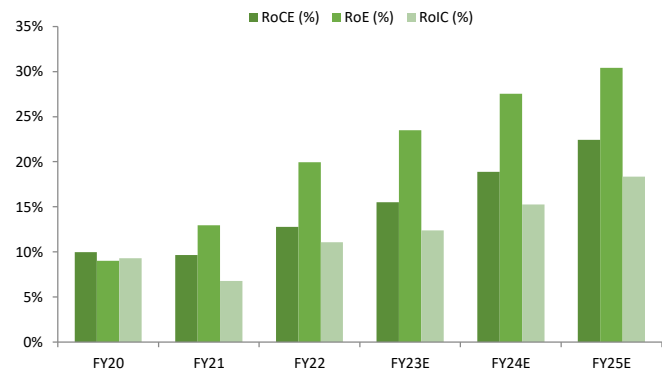


Exhibit 14: Working capital days to be improve

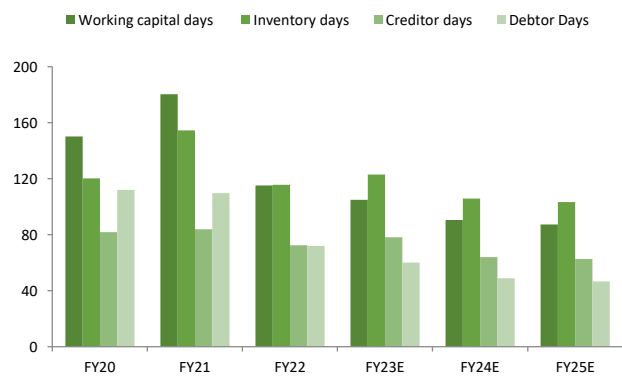
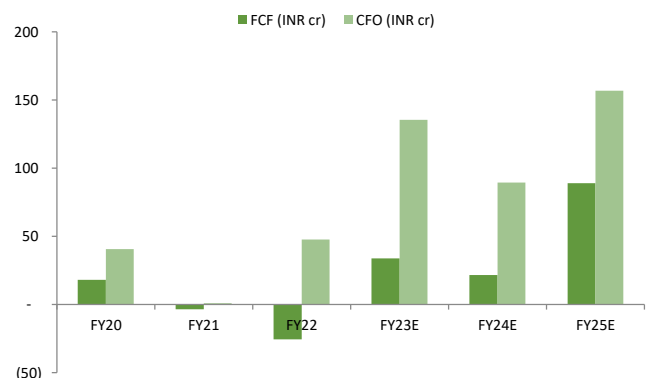


Exhibit 15: Cash flows to be improve



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 16: Working capital in-terms of sales is expected to reduce going forward.

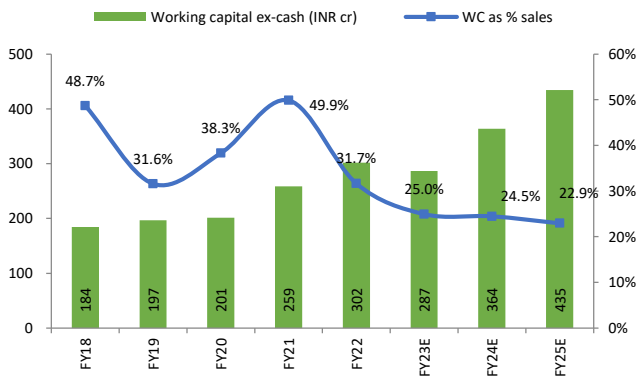


Exhibit 17: Interest cost as % of EBIT is expected to reduce going forward.

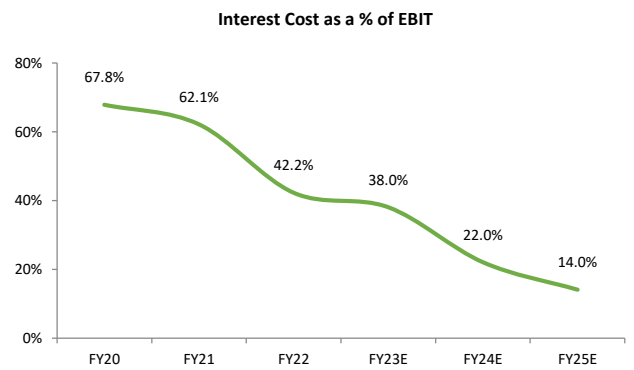


Exhibit 18: Exports revenue share is expected to reach 20% going forward.

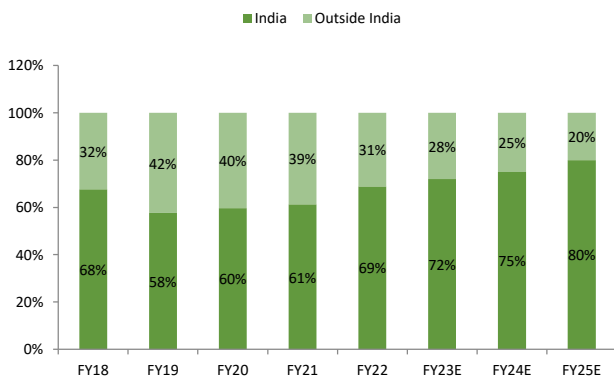


Exhibit 19: Sales realisation is continue to grow going forward.

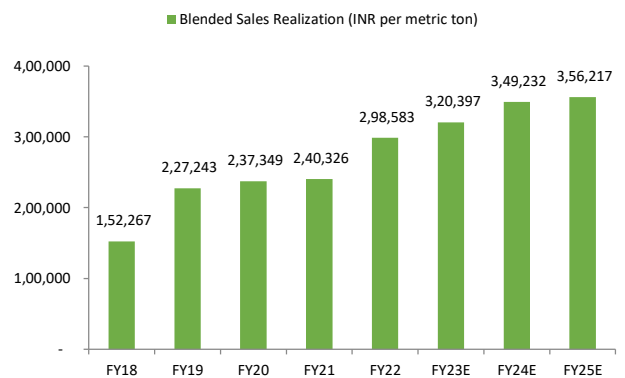


Exhibit 20: EBITDA realisation is continue to grow going forward

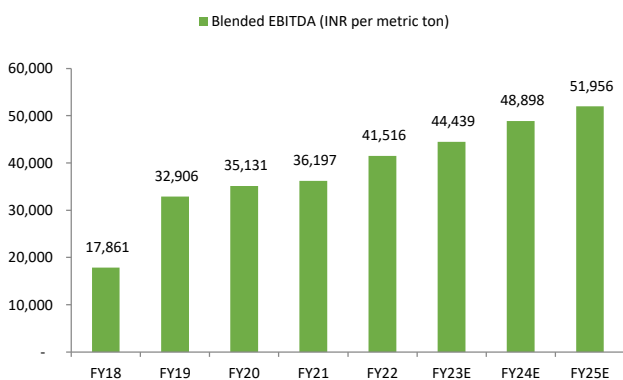
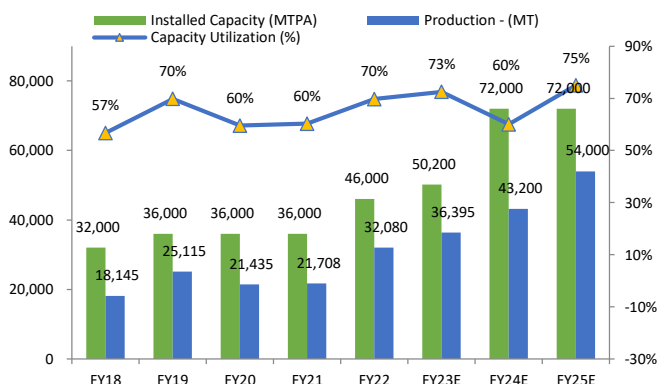


Exhibit 21: Capacity utilisation is expected to be above 70% going forward. In FY24, additional capacity 21,800 MT will be added which leads to bring down the blended utilisation.



Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 22: The debt is expected to reduce going forward.

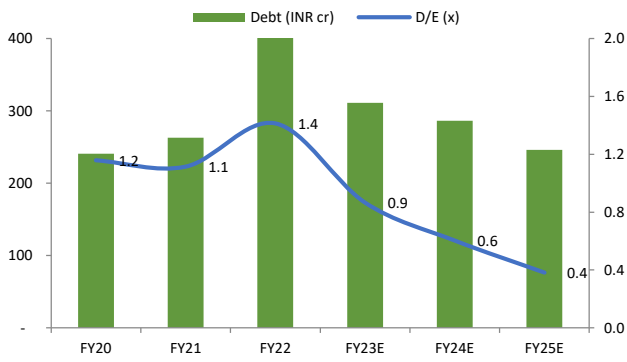


Exhibit 23: Tools and Ties cost is expected to be less than 2% of sales.

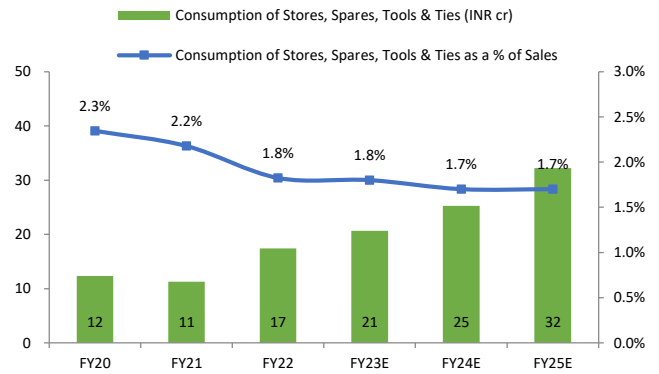


Exhibit 24: Power and fuel cost is expected to be less than 1% of sales.

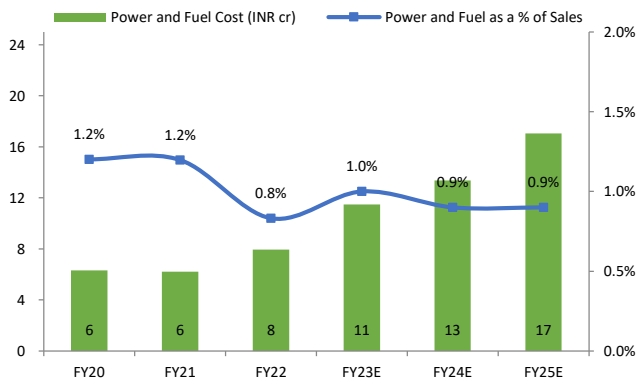


Exhibit 25: Packing cost is expected to be less than 1.5% of sales.

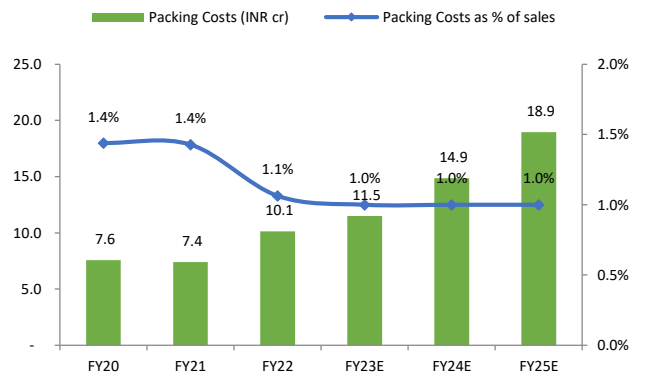


Exhibit 26: Travelling activities are expected to pickup going forward.

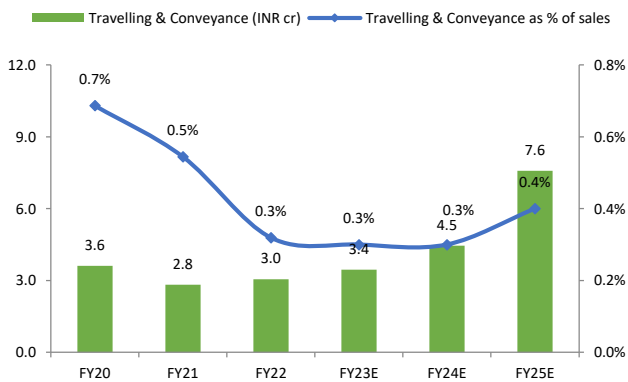
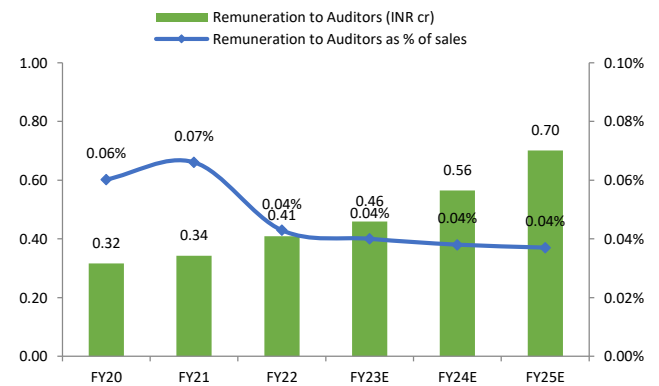


Exhibit 27: Auditors remuneration is expected to be flat in-terms of sales.



Source: Company Reports, Arianth 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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