

CMP: INR 340

Rating: BUY

Target Price: INR 461

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) | 1,090 |
| 52w H/L (INR) | 375 / 256 |
| Avg Yearly Volume (in 000') | 154.7 |

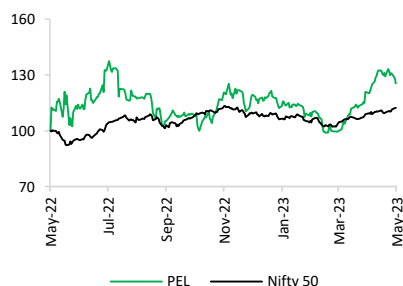
Shareholding Pattern %

(As on Mar, 2023)

| | |
|-----------------|-------|
| Promoters | 59.29 |
| DII | 5.91 |
| FII | 0.00 |
| Public & Others | 34.79 |

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|------|
| PEL | 14.4 | 4.0 | 25.3 |
| NIFTY | 6.8 | -0.7 | 12.4 |

PEL vs Nifty



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Pitti Engineering Ltd reported numbers, Q4FY23 revenue stood at INR 248cr (-8.8% YoY/+4% QoQ); vs our estimates of INR 280cr. Gross Profit stood at INR 79Cr (+9.6% YoY/-0.5% QoQ); vs our estimates of INR 83cr. Gross margins improved by 532 bps YoY (down by 144 bps QoQ) to 31.7% vs 26.4% in Q4FY22. The raw material cost in terms of sales stood at 68.3% vs 73.6% in Q4FY22. EBITDA stood at INR 41cr (+14.7% YoY/+4.5% QoQ); vs our estimates of INR 45cr. EBITDA margin improved by 336 bps YoY (up by 7 bps QoQ) to 16.4% vs 13% in Q4FY22. PAT stood at INR 25cr (+24.1% YoY/+104.8% QoQ); vs our estimates of INR 39cr. PAT margin improved by 266 bps YoY (up by 494 bps QoQ) to 10% vs 7.4% in Q4FY22.

Key Highlights

Capacity is expected to complete by Q2FY24: The total sheet metal capacity stood at 50,200 tonnes per annum as of Q4FY23. The construction of the new shed and other expansion work is on track. Capex spent around INR 103cr in FY23. The capex is expected around INR 190cr for sheet metal capacity, increasing machining hours, and modernization. The company is expected to reach 72,000 tonnes per annum by the end of Q2FY24. The machining hours stood at 4,60,800 hours. The company is expected to reach 6,48,000 machining hours in FY24 and is expected to utilize optimum levels in H2FY25.

Witnessed working capital improvement due to optimum RM and finished goods: The average working capital days are around 75 days and are expected to maintain the same going forward. The domestic and Export mix stood at 66:34 in FY23 and is expected to be the same in FY24. In exports, working capital days are slightly higher, however, the company witnessed strong traction in exports. The softening of raw material prices and easing of supply chain bottlenecks led to a reduction in working capital by maintaining optimal raw materials and finished goods.

Improvement in realization backed by value-added components: In Q4FY23, Sales realization per tonne stood at INR 2,58,055 (-17.8% YoY/-0.8% QoQ) due to softening of raw material prices. The volume grew by 12.1% YoY (+6.8% QoQ) to 9,771 tonnes. The assembled & value-added and loose lamination mix stood at 74:26 vs 73:27 in Q4FY22. EBITDA per tonne realization grew by 3.4% YoY (-0.3% QoQ) to INR 42,289, driven by volume growth in assembled and value-added components. The company is focusing on 42,000 tonnes of volumes and an EBITDA per tonne realization of INR 42,000 in FY24.

Potential opportunities in Railways: Vande Bharat is picking up and the company is supplying laminations. Further, the company is expected to supply various machined components. In railways, traction motor capacities are coming up. The company is in talks with Alstom and Titagarh Wagons for supplying components. Around 20,000 – 22,000, locomotives are expected to modernize in the Americas. The company has potential opportunities in exports due to its presence in North and South American markets.

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, Potential opportunities in Vande Bharat train and railway components, short execution period with repetitive orders from clients, strong traction in exports markets will be the key triggers. We believe, post capex incremental revenue is expected with strong execution, and strong orders are expected from top capital goods players due to the capex upcycle. At the CMP of INR 340 per share, we maintain our “BUY” rating at a TP of INR 461 per share; valued at a PE multiple of 15x and its FY25E EPS of INR 30.8; an upside of 35.7%.

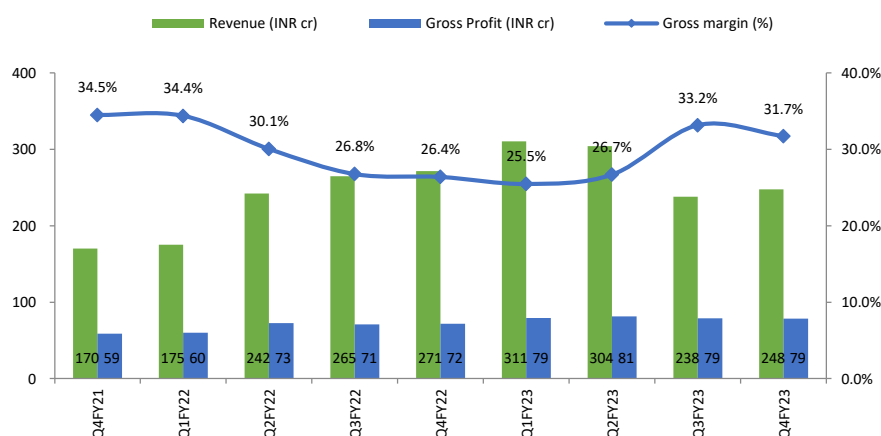
Q4FY23 Results

Income statement summary

| Particular (INR cr) | Q4FY22 | Q3FY23 | Q4FY23 | YoY (%) | QoQ (%) |
|------------------------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | 271 | 238 | 248 | -8.8% | 4.0% |
| Net Raw Materials | 200 | 159 | 169 | -15.4% | 6.2% |
| Employee Cost | 20 | 22 | 20 | 0.4% | -6.1% |
| Other Expenses | 16 | 18 | 18 | 9.9% | -4.4% |
| EBITDA | 35 | 39 | 41 | 14.7% | 4.5% |
| EBITDA Margin (%) | 13.0% | 16.3% | 16.4% | 3.36% | 0.07% |
| Depreciation | 11 | 11 | 13 | | |
| Interest expense | 12 | 12 | 10 | | |
| Other income | 15.1 | 1.1 | 15.8 | | |
| Profit before tax | 27 | 17 | 34 | | |
| Taxes | 7 | 5 | 9 | | |
| PAT | 20 | 12 | 25 | 24.1% | 104.8% |
| PAT Margin (%) | 7.4% | 5.1% | 10.0% | 2.66% | 4.94% |
| Other Comprehensive income | (0.9) | 0.1 | (1.5) | | |
| Net profit | 19 | 12 | 23 | 22.0% | 90.7% |
| Net profit Margin (%) | 7.0% | 5.1% | 9.4% | 2.38% | 4.29% |
| EPS (INR) | 6.2 | 3.8 | 7.7 | | |

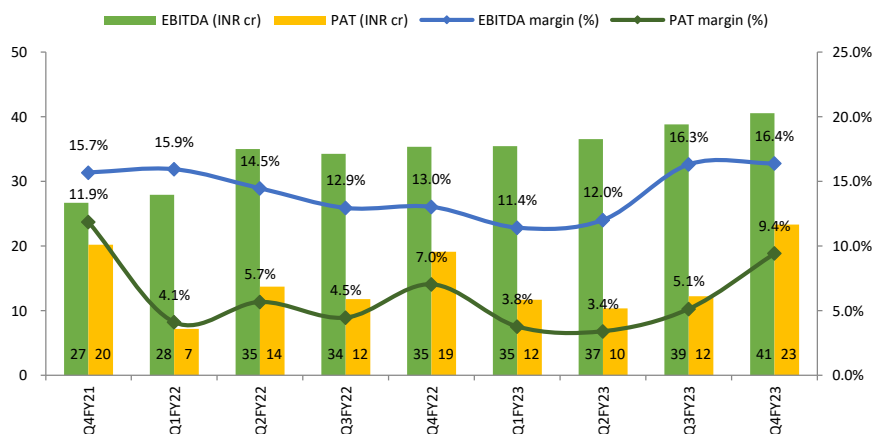
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Gross margins were improved by 532bps YoY in Q4FY23 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

Q4FY23 Concall Highlights**Revenue**

- Around INR 1,800cr topline is expected at 80% utilization in FY25.
- The domestic and Export mix stood at 66:34 in FY23 and is expected to be the same in FY24.
- Around 60% of revenue comes from the top 5 customers, Siemens is in the progress of designing and developing 9,000 HP orders. The company is expected to get potential orders from Siemens.

Margins

- EBITDA margin stood at 13.8% in FY23 and is expected to be the same in FY24.

Order book

- The order book stood at INR 823cr as of FY23. Out of 823cr, around INR 200cr order book is expected to execute in 2-3 years, and the remaining will be executable within a year. The current order book has around 32,000 tonnes as of FY23.
- The order book is based on steel prices. The company is getting orders on a regular basis. The order execution period is generally around 3 months because the company has a quarterly price variation clause with customers. Renewable orders will be executed in 6-9 months.

Capacity

- The current capacity stands at 50,200 MTPA as of Q4FY23 and is expected to reach 72,000 MTPA by Q2FY24.
- The current machine hours stand at 4,60,800 hours and are expected to reach 6,50,000 hours in FY24 and are expected to utilize optimum levels in H2FY25.

Capex

- The capex incurred ~INR 103cr in FY23 and ~INR 190cr capex is expected in FY24.

Volumes and Realizations

- The company is targeting around 42,000 tonnes in FY24 and around 51,000 tonnes in FY25.
- In FY24, out of 42,000 tonnes; around 33,000-34,000 tonnes are expected from Assembled and value-added components and the remaining from loose laminations.
- EBITDA per tonne realization is expected around INR 42,000 in FY24.
- The lower grade average steel prices are around INR 98,000/tonne and INR 2.5 lakhs/tonne for higher grades in FY23.

Q4FY23 Concall Highlights**Exports**

- In exports, around 75%-80% of revenue comes from North & South America and the remaining from Central Asia and South Asia countries.
- Around 20,000 – 22,000 locomotives are expected to modernize in the Americas.

Incentives

- The company has received INR 14.62cr incentives and the remaining ~INR 15cr incentives are expected in H2FY23. Overall, around INR 45cr incentives are expected in FY24.

Railways and Vande Bharat trains

- Vande Bharat is picking up and the company is supplying laminations. Further, the company is expected to supply various machined components.
- Around 32 motors are required for 1 Vande Bharat train. Each motor has 0.5 tonnes of laminations. Around 16 tonnes of laminations are required for 1 Vande Bharat train.
- In railways, traction motor capacities are coming up. The company is in talks with Alstom and Titagarh Wagons for supplying components.

Automotive

- In EV, commercial supply started for some customers and remains in the development stage.
- In Automotive, around INR 30cr to INR 40cr business is expected in the next 5 years.

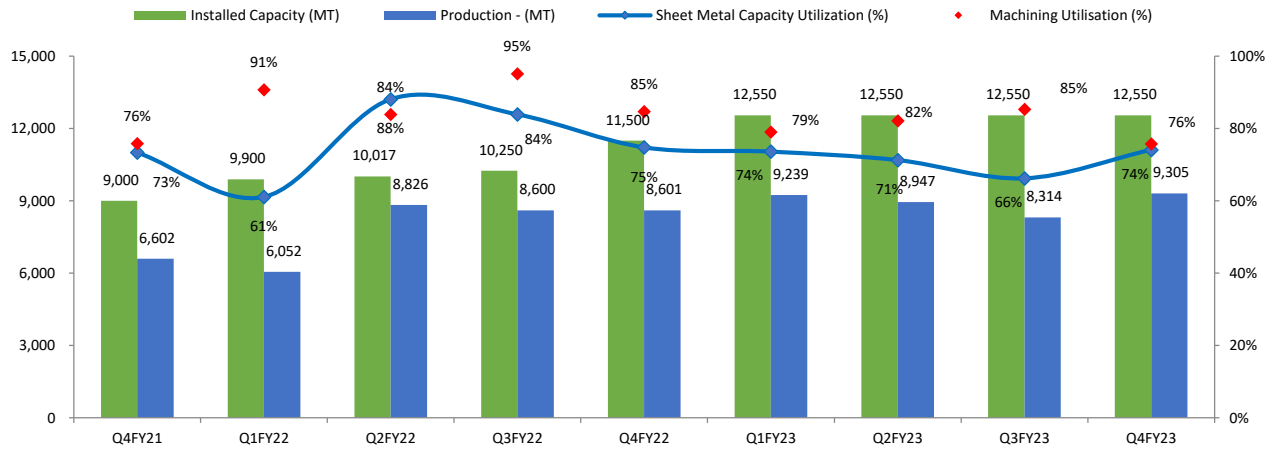
Market share

- The company has an 8% market share in the organized electrical laminations market. The company consumed around 60,000 tonnes of steel out of 7,50,000 tonnes in FY23.

Other highlights

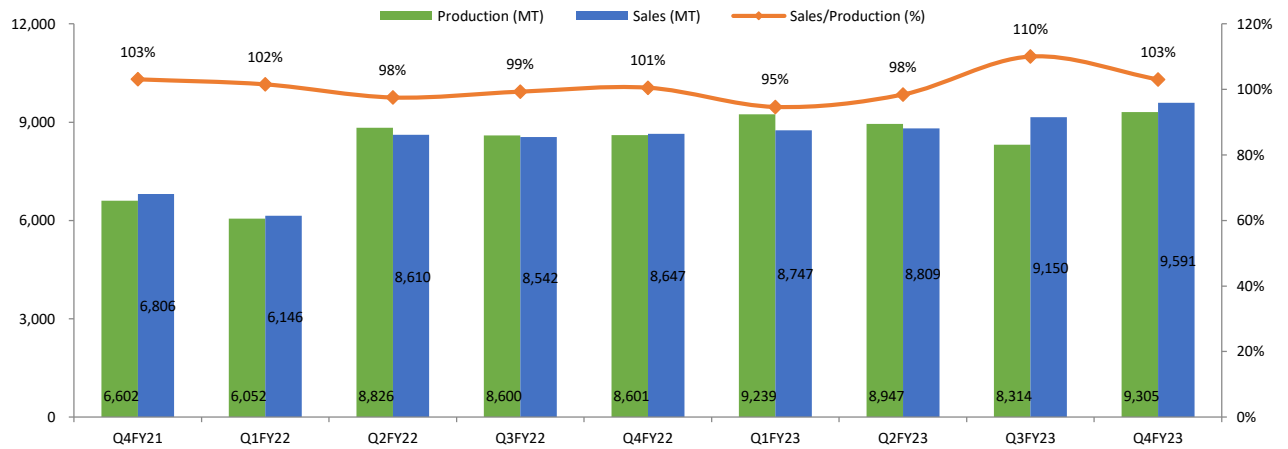
- The average working capital days are around 75 days and are expected to maintain the same.
- There is no significant increase in debt by FY24, post-capex cycle, debt is expected to reduce gradually.
- The company is supplying Wabtec and has an 85% market share for supplying components.
- The outlook remains strong backed by railways and power generation.

Exhibit 3: Machining utilization remaining healthy and sheet metal capacity utilisation is expected to improve going forward.



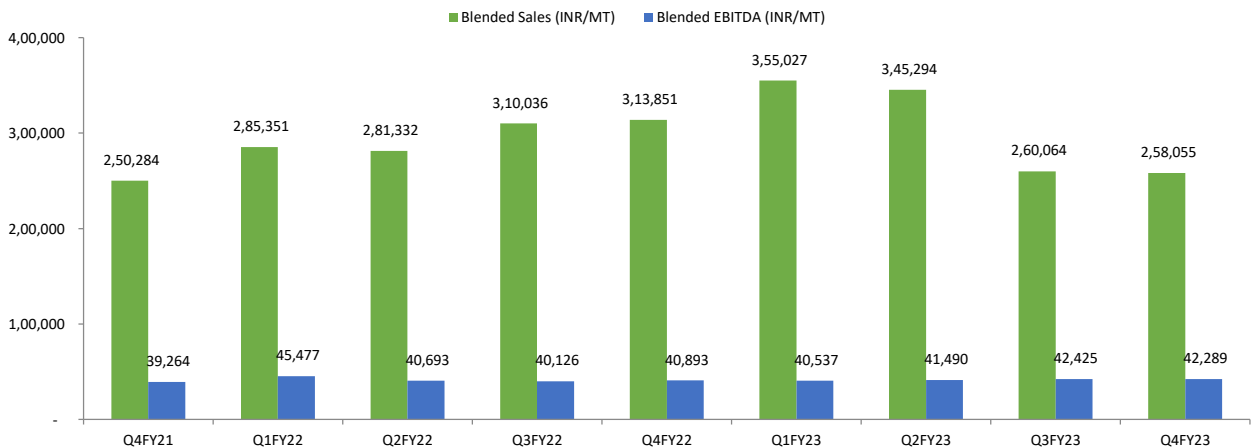
Source: Company Reports, Aриhant Capital Research
 Installed capacity is quarterly basis

Exhibit 4: Sales are in-line with production.



Source: Company Reports, Aриhant Capital Research

Exhibit 5: Improvement in EBITDA realizations



Source: Company Reports, Aриhant Capital Research

Scenario Analysis

Exhibit 6: Revenue based on Realizations and Capacity utilizations

Revenue (FY24E) - INR cr

| | | Capacity Utilization (%) | | | | | | | | | | | |
|-----------------------------------|----------|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|
| | | 1,231 | 47% | 49% | 51% | 53% | 55% | 57% | 59% | 61% | 63% | 65% | 67% |
| Sales Realization per tonne (INR) | 3,00,000 | 995 | 1,037 | 1,080 | 1,122 | 1,164 | 1,207 | 1,249 | 1,291 | 1,334 | 1,376 | 1,418 | |
| | 3,03,000 | 1,005 | 1,048 | 1,090 | 1,133 | 1,176 | 1,219 | 1,261 | 1,304 | 1,347 | 1,390 | 1,432 | |
| | 3,06,000 | 1,015 | 1,058 | 1,101 | 1,144 | 1,188 | 1,231 | 1,274 | 1,317 | 1,360 | 1,403 | 1,447 | |
| | 3,09,000 | 1,025 | 1,068 | 1,112 | 1,156 | 1,199 | 1,243 | 1,286 | 1,330 | 1,374 | 1,417 | 1,461 | |
| | 3,12,000 | 1,035 | 1,079 | 1,123 | 1,167 | 1,211 | 1,255 | 1,299 | 1,343 | 1,387 | 1,431 | 1,475 | |
| | 3,15,000 | 1,045 | 1,089 | 1,134 | 1,178 | 1,222 | 1,267 | 1,311 | 1,356 | 1,400 | 1,445 | 1,489 | |
| | 3,18,000 | 1,055 | 1,099 | 1,144 | 1,189 | 1,234 | 1,279 | 1,324 | 1,369 | 1,414 | 1,458 | 1,503 | |
| | 3,21,000 | 1,065 | 1,110 | 1,155 | 1,200 | 1,246 | 1,291 | 1,336 | 1,382 | 1,427 | 1,472 | 1,518 | |
| | 3,24,000 | 1,074 | 1,120 | 1,166 | 1,212 | 1,257 | 1,303 | 1,349 | 1,395 | 1,440 | 1,486 | 1,532 | |
| | 3,27,000 | 1,084 | 1,131 | 1,177 | 1,223 | 1,269 | 1,315 | 1,361 | 1,407 | 1,454 | 1,500 | 1,546 | |
| | 3,30,000 | 1,094 | 1,141 | 1,188 | 1,234 | 1,281 | 1,327 | 1,374 | 1,420 | 1,467 | 1,514 | 1,560 | |
| | 3,33,000 | 1,104 | 1,151 | 1,198 | 1,245 | 1,292 | 1,339 | 1,386 | 1,433 | 1,480 | 1,527 | 1,574 | |
| | 3,36,000 | 1,114 | 1,162 | 1,209 | 1,257 | 1,304 | 1,351 | 1,399 | 1,446 | 1,494 | 1,541 | 1,588 | |
| 3,39,000 | 1,124 | 1,172 | 1,220 | 1,268 | 1,316 | 1,363 | 1,411 | 1,459 | 1,507 | 1,555 | 1,603 | | |

Revenue (FY25E) - INR cr

| | | Capacity Utilization (%) | | | | | | | | | | | |
|-----------------------------------|----------|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|
| | | 1,542 | 60% | 62% | 64% | 66% | 68% | 70% | 72% | 74% | 76% | 78% | 80% |
| Sales Realization per tonne (INR) | 3,00,000 | 1,270 | 1,312 | 1,355 | 1,397 | 1,439 | 1,482 | 1,524 | 1,566 | 1,609 | 1,651 | 1,693 | |
| | 3,03,000 | 1,283 | 1,326 | 1,368 | 1,411 | 1,454 | 1,497 | 1,539 | 1,582 | 1,625 | 1,668 | 1,710 | |
| | 3,06,000 | 1,295 | 1,339 | 1,382 | 1,425 | 1,468 | 1,511 | 1,555 | 1,598 | 1,641 | 1,684 | 1,727 | |
| | 3,09,000 | 1,308 | 1,352 | 1,395 | 1,439 | 1,483 | 1,526 | 1,570 | 1,613 | 1,657 | 1,701 | 1,744 | |
| | 3,12,000 | 1,321 | 1,365 | 1,409 | 1,453 | 1,497 | 1,541 | 1,585 | 1,629 | 1,673 | 1,717 | 1,761 | |
| | 3,15,000 | 1,334 | 1,378 | 1,422 | 1,467 | 1,511 | 1,556 | 1,600 | 1,645 | 1,689 | 1,734 | 1,778 | |
| | 3,18,000 | 1,346 | 1,391 | 1,436 | 1,481 | 1,526 | 1,571 | 1,616 | 1,660 | 1,705 | 1,750 | 1,795 | |
| | 3,21,000 | 1,359 | 1,404 | 1,450 | 1,495 | 1,540 | 1,585 | 1,631 | 1,676 | 1,721 | 1,767 | 1,812 | |
| | 3,24,000 | 1,372 | 1,417 | 1,463 | 1,509 | 1,555 | 1,600 | 1,646 | 1,692 | 1,737 | 1,783 | 1,829 | |
| | 3,27,000 | 1,384 | 1,431 | 1,477 | 1,523 | 1,569 | 1,615 | 1,661 | 1,707 | 1,754 | 1,800 | 1,846 | |
| | 3,30,000 | 1,397 | 1,444 | 1,490 | 1,537 | 1,583 | 1,630 | 1,677 | 1,723 | 1,770 | 1,816 | 1,863 | |
| | 3,33,000 | 1,410 | 1,457 | 1,504 | 1,551 | 1,598 | 1,645 | 1,692 | 1,739 | 1,786 | 1,833 | 1,880 | |
| | 3,36,000 | 1,422 | 1,470 | 1,517 | 1,565 | 1,612 | 1,660 | 1,707 | 1,754 | 1,802 | 1,849 | 1,897 | |
| 3,39,000 | 1,435 | 1,483 | 1,531 | 1,579 | 1,627 | 1,674 | 1,722 | 1,770 | 1,818 | 1,866 | 1,914 | | |

 - Bull Case

 - Base Case

 - Bear Case

Source: Company Reports, Arihant Capital Research

Exhibit 7: Sales are expected to reach ~INR 1,550cr at 70% capacity utilization 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 | FY23 | 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 | 4,60,800 | 6,48,000 | 6,48,000 |
| Production - Lamination (MT) | 18,145 | 19,234 | 25,115 | 21,435 | 21,708 | 32,080 | 35,803 | 41,040 | 50,400 |
| Sales (MT) | 18,776 | 18,799 | 27,381 | 22,122 | 21,561 | 31,945 | 36,297 | 40,219 | 49,392 |
| Sales/Production (%) | 103% | 98% | 109% | 103% | 99% | 99.6% | 101.4% | 98.0% | 98.0% |
| Capacity Utilization (%) | 56.7% | 58.3% | 69.8% | 59.5% | 60.3% | 69.7% | 71.3% | 57.0% | 70.0% |
| Sales (INR cr) | 286 | 379 | 622 | 525 | 518 | 954 | 1,100 | 1,231 | 1,542 |
| EBITDA (INR cr) | 34 | 54 | 90 | 78 | 78 | 133 | 151 | 170 | 214 |
| EBITDA Margin (%) | 11.7% | 14.4% | 14.5% | 14.8% | 15.1% | 13.9% | 13.8% | 13.8% | 13.9% |
| Blended Sales Realization (per metric tonne) | 1,52,267 | 2,01,496 | 2,27,243 | 2,37,349 | 2,40,326 | 2,98,583 | 3,03,103 | 3,06,134 | 3,12,256 |
| Blended EBITDA (per metric tonne) | 17,861 | 28,983 | 32,906 | 35,131 | 36,197 | 41,516 | 41,707 | 42,212 | 43,407 |

Source: Company Reports, Arihant Capital Research

Valuation

Exhibit 8: Bull Case Scenario

| Bull Case (INR cr) | FY23 | FY24E | FY25E |
|--------------------|-------|-------|-------|
| Revenue | 1,100 | 1,363 | 1,821 |
| EBITDA | 151 | 187 | 252 |
| EBITDA Margin (%) | 13.8% | 13.7% | 13.8% |
| PAT | 59 | 86 | 131 |
| PAT Margin (%) | 5.3% | 6.3% | 7.2% |
| EPS (INR) | 18.0 | 26.9 | 40.8 |

Valuation - P/E (FY25)

EPS (INR) 40.8

P/E (x) 16.0

Target Price (INR) 652

CMP (INR) 340

Upside/Downside (%) 91.9%

Source: Company, Arihant Capital Research

Exhibit 9: Base Case Scenario

| Base Case (INR cr) | FY23 | FY24E | FY25E |
|--------------------|-------|-------|-------|
| Revenue | 1,100 | 1,237 | 1,550 |
| EBITDA | 151 | 170 | 214 |
| EBITDA Margin (%) | 13.8% | 13.7% | 13.8% |
| PAT | 59 | 71 | 99 |
| PAT Margin (%) | 5.3% | 5.7% | 6.4% |
| EPS (INR) | 18.0 | 22.2 | 30.8 |

Valuation - P/E (FY25)

EPS (INR) 30.8

P/E (x) 15.0

Target Price (INR) 461

CMP (INR) 340

Upside/Downside (%) 35.7%

Source: Company, Arihant Capital Research

Exhibit 10: Bear Case Scenario

| Bear Case (INR cr) | FY23 | FY24E | FY25E |
|--------------------|-------|-------|-------|
| Revenue | 1,100 | 1,139 | 1,446 |
| EBITDA | 151 | 156 | 200 |
| EBITDA Margin (%) | 13.8% | 13.7% | 13.8% |
| PAT | 59 | 59 | 86 |
| PAT Margin (%) | 5.3% | 5.2% | 6.0% |
| EPS (INR) | 18.0 | 18.4 | 26.9 |

Valuation - P/E (FY25)

EPS (INR) 26.9

P/E (x) 14.0

Target Price (INR) 377

CMP (INR) 340

Upside/Downside (%) 10.9%

Source: Company, Arihant Capital Research

DCF Valuation

| Valuation Assumptions | | WACC | |
|---------------------------|-----|-------------|--------------|
| g (World Economic Growth) | 3% | We | 87.0% |
| Rf | 7% | Wd | 13.0% |
| Rm | 12% | Ke | 12.2% |
| Beta | 1.1 | Kd | 9.0% |
| CMP (INR) | 340 | WACC | 11.8% |

| 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 | 1,090 |
| Total Debt | 163 |
| Total Capital | 1,253 |

| FCFF & Target Price | | | | | | | | | | | | |
|----------------------------|--------------------------|-----------|------------|------------|------------|------------|----------------------|------------|------------|------------|--------------|-------|
| FCFF & Target Price | Explicit Forecast Period | | | | | | Linear Decline Phase | | | | Terminal Yr | |
| Year | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
| EBIT * (1-Tax Rate) | 80 | 106 | 118 | 135 | 145 | 153 | 161 | 169 | 176 | 183 | 189 | 195 |
| Dep | 60 | 69 | 75 | 81 | 86 | 92 | 96 | 101 | 105 | 109 | 113 | 116 |
| Purchase of Assets | (192) | (68) | (69) | (69) | (63) | (63) | (68) | (71) | (74) | (77) | (80) | (82) |
| Changes in Working Capital | 0 | (63) | (11) | 15 | 17 | 11 | 15 | 16 | 17 | 17 | 18 | 19 |
| FCFF | (52) | 44 | 113 | 162 | 186 | 193 | 204 | 214 | 223 | 232 | 240 | 247 |
| Terminal Value | | | | | | | | | | | | 2,800 |
| Total Cash Flow | (52) | 44 | 113 | 162 | 186 | 193 | 204 | 214 | 223 | 232 | 3,040 | |

| | |
|-------------------------------------|------------|
| Enterprise Value (EV) | 1,606 |
| Less: Debt | 163 |
| Add: Cash | 35 |
| Equity Value | 1,478 |
| Equity Value per share (INR) | 461 |

% Returns **35.6%**

Rating **BUY**

Sensitivity of Target Price to Terminal growth and WACC

| | | Terminal Growth (%) | | | | | | | | |
|----------|-------|---------------------|------|------------|------------|------------|------------|------------|------|------|
| | | 2.0% | 2.3% | 2.5% | 2.8% | 3.0% | 3.3% | 3.5% | 3.8% | 4.0% |
| WACC (%) | 461 | | | | | | | | | |
| | 10.8% | 498 | 509 | 521 | 533 | 546 | 560 | 575 | 591 | 608 |
| | 11.0% | 480 | 490 | 501 | 512 | 524 | 537 | 551 | 565 | 581 |
| | 11.3% | 462 | 472 | 482 | 492 | 504 | 516 | 528 | 542 | 556 |
| | 11.5% | 446 | 455 | 464 | 474 | 484 | 495 | 507 | 520 | 533 |
| | 11.8% | 431 | 439 | 447 | 457 | 466 | 476 | 487 | 499 | 511 |
| | 12.0% | 416 | 424 | 432 | 440 | 449 | 459 | 469 | 479 | 491 |
| | 12.3% | 402 | 409 | 417 | 425 | 433 | 442 | 451 | 461 | 472 |
| | 12.5% | 389 | 395 | 402 | 410 | 418 | 426 | 435 | 444 | 454 |
| 12.8% | 376 | 382 | 389 | 396 | 403 | 411 | 419 | 428 | 437 | |

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 | FY23 | FY24E | FY25E |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 525 | 518 | 954 | 1,100 | 1,237 | 1,550 |
| Net Raw Materials | 345 | 335 | 678 | 782 | 881 | 1,102 |
| Employee Cost | 55 | 56 | 78 | 87 | 98 | 122 |
| Other Expenses | 48 | 49 | 65 | 80 | 89 | 111 |
| EBITDA | 78 | 78 | 133 | 151 | 170 | 214 |
| EBITDA Margin (%) | 14.8% | 15.1% | 13.9% | 13.8% | 13.7% | 13.8% |
| Depreciation | (27) | (30) | (39) | (45) | (60) | (69) |
| Interest expense | (34) | (30) | (40) | (45) | (47) | (47) |
| Other income | 4 | 20 | 16 | 18 | 34 | 37 |
| Profit before tax | 20 | 39 | 71 | 80 | 97 | 135 |
| Taxes | (3) | (10) | (19) | (21) | (26) | (36) |
| PAT | 17 | 29 | 52 | 59 | 71 | 99 |
| PAT Margin (%) | 3.3% | 5.5% | 5.4% | 5.3% | 5.7% | 6.4% |
| Other Comprehensive income | (0) | (1) | 0 | (1) | - | - |
| Net profit | 17 | 28 | 52 | 58 | 71 | 99 |
| EPS (INR) | 5.3 | 8.7 | 16.2 | 18.0 | 22.2 | 30.8 |

Source: Company Reports, Arianth Capital Research

Balance sheet summary

| Y/e 31 Mar (INR cr) | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|----------------------------------|------------|------------|------------|------------|------------|------------|
| Equity capital | 16 | 16 | 16 | 16 | 16 | 16 |
| Reserves | 192 | 220 | 268 | 318 | 389 | 488 |
| Net worth | 208 | 236 | 284 | 334 | 405 | 504 |
| Provisions | 34 | 74 | 12 | 12 | 10 | 13 |
| Debt | 241 | 263 | 401 | 365 | 375 | 355 |
| Other non-current liabilities | 11 | 10 | 9 | 9 | 12 | 16 |
| Total Liabilities | 494 | 583 | 706 | 720 | 802 | 887 |
| Fixed assets | 212 | 193 | 228 | 279 | 433 | 432 |
| Capital Work In Progress | 8 | 1 | 1 | 24 | 2 | 2 |
| Other Intangible assets | 11 | 18 | 14 | 9 | 9 | 9 |
| Investments | 42 | 95 | 18 | 26 | 37 | 47 |
| Other non current assets | 4 | 8 | 108 | 98 | 74 | 78 |
| Net working capital | 200 | 258 | 301 | 218 | 218 | 281 |
| Inventories | 127 | 157 | 272 | 239 | 266 | 317 |
| Sundry debtors | 139 | 172 | 204 | 181 | 186 | 234 |
| Loans & Advances | 0.2 | 0.2 | - | - | 0.1 | 0.2 |
| Other current assets | 36 | 48 | 75 | 55 | 61 | 76 |
| Sundry creditors | (97) | (105) | (220) | (251) | (263) | (311) |
| Other current liabilities & Prov | (6) | (13) | (30) | (7) | (32) | (36) |
| Cash | 15 | 9 | 35 | 65 | 27 | 35 |
| Other Financial Assets | 1 | 0 | 1 | 1 | 2 | 3 |
| Total Assets | 494 | 583 | 706 | 720 | 802 | 887 |

Source: Company Reports, Arianth Capital Research

Du-Pont Analysis

| Y/e 31 Mar (INR cr) | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|------------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Tax burden (x) | 0.9 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Interest burden (x) | 0.4 | 0.8 | 0.8 | 0.7 | 0.9 | 0.9 |
| EBIT margin (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Asset turnover (x) | 1.0 | 0.9 | 1.3 | 1.2 | 1.2 | 1.4 |
| Financial leverage (x) | 2.9 | 2.5 | 2.9 | 3.0 | 2.7 | 2.4 |
| RoE (%) | 9.0% | 13.0% | 20.0% | 19.0% | 19.2% | 21.7% |

Source: Company Reports, Arianth Capital Research

Financial Statements

Cashflow summary

| Y/e 31 Mar (INR cr) | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------------|-----------|------------|-------------|------------|-------------|------------|
| Profit before tax | 20 | 39 | 71 | 80 | 97 | 135 |
| Depreciation | 27 | 30 | 39 | 45 | 60 | 69 |
| Tax paid | (3) | (10) | (19) | (21) | (26) | (36) |
| Working capital Δ | (4) | (58) | (43) | 83 | 0 | (63) |
| Operating cashflow | 41 | 1 | 48 | 187 | 131 | 105 |
| Capital expenditure | (23) | (4) | (73) | (119) | (192) | (68) |
| Free cash flow | 18 | (4) | (26) | 68 | (61) | 36 |
| Equity raised | 20 | (1) | 0 | (1) | - | - |
| Investments | (25) | (53) | 77 | (7) | (12) | (9) |
| Others | (2) | (9) | (97) | 15 | 22 | (4) |
| Debt financing/disposal | (32) | 22 | 139 | (37) | 10 | (20) |
| Dividends paid | - | - | (4) | (8) | - | - |
| Other items | 22 | 39 | (63) | 0 | 2 | 6 |
| Net Δ in cash | 1 | (6) | 26 | 30 | (39) | 9 |
| Opening Cash Flow | 14 | 15 | 9 | 35 | 65 | 27 |
| Closing Cash Flow | 15 | 9 | 35 | 65 | 27 | 35 |

Source: Company Reports, Aриhant Capital Research

Ratio analysis

| Y/e 31 Mar | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------------------|--------|-------|-------|-------|-------|-------|
| Growth matrix (%) | | | | | | |
| Revenue growth | -15.6% | -1.3% | 84.1% | 15.3% | 12.5% | 25.3% |
| Op profit growth | -13.7% | 0.4% | 69.9% | 14.1% | 12.1% | 26.3% |
| Profitability ratios (%) | | | | | | |
| OPM | 14.8% | 15.1% | 13.9% | 13.8% | 13.7% | 13.8% |
| Net profit margin | 3.3% | 5.5% | 5.4% | 5.3% | 5.7% | 6.4% |
| RoCE | 10.0% | 9.6% | 12.8% | 13.0% | 14.0% | 16.0% |
| RoNW | 9.0% | 13.0% | 20.0% | 19.0% | 19.2% | 21.7% |
| RoA | 3.5% | 4.9% | 7.3% | 8.2% | 8.9% | 11.1% |
| Per share ratios (INR) | | | | | | |
| EPS | 5.3 | 8.7 | 16.2 | 18.0 | 22.2 | 30.8 |
| Dividend per share | - | - | 1.2 | 2.3 | - | - |
| Cash EPS | 13.9 | 18.4 | 28.3 | 32.3 | 40.9 | 52.3 |
| Book value per share | 64.8 | 73.6 | 88.6 | 104.2 | 126.3 | 157.1 |
| Valuation ratios (x) | | | | | | |
| P/E | 64.7 | 38.9 | 21.0 | 18.9 | 15.3 | 11.1 |
| P/CEPS | 24.5 | 18.4 | 12.0 | 10.5 | 8.3 | 6.5 |
| P/B | 5.2 | 4.6 | 3.8 | 3.3 | 2.7 | 2.2 |
| EV/EBITDA | 16.4 | 16.0 | 10.8 | 9.0 | 8.3 | 6.4 |
| Payout (%) | | | | | | |
| Dividend payout | 0.0% | 0.0% | 7.3% | 12.8% | 0.0% | 0.0% |
| Tax payout | 13.9% | 25.4% | 26.5% | 26.4% | 27.0% | 27.0% |
| Liquidity ratios | | | | | | |
| Debtor days | 112 | 110 | 72 | 64 | 54 | 49 |
| Inventory days | 120 | 154 | 116 | 119 | 105 | 96 |
| Creditor days | 82 | 84 | 72 | 91 | 88 | 78 |
| WC Days | 150 | 180 | 115 | 93 | 71 | 67 |
| Leverage ratios (x) | | | | | | |
| Interest coverage | 1.5 | 1.6 | 2.4 | 2.4 | 2.3 | 3.1 |
| Net debt / equity | 1.1 | 1.1 | 1.3 | 0.9 | 0.9 | 0.6 |
| Net debt / op. profit | 2.9 | 3.3 | 2.8 | 2.0 | 2.1 | 1.5 |

Source: Company Reports, Aриhant Capital Research

Story in Charts

Exhibit 11: Capacity expansion will lead to incremental revenue going forward.

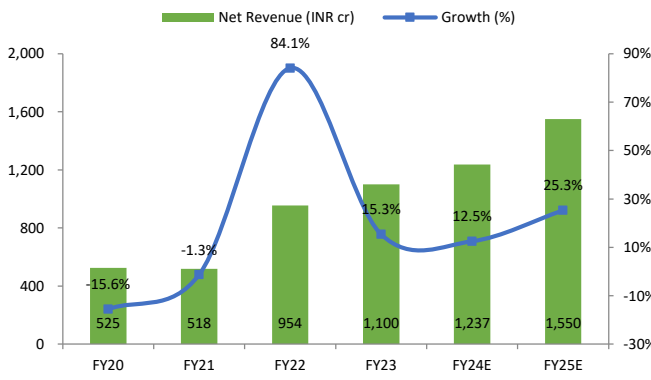


Exhibit 12: Gross margins are expected to stabilize going forward.

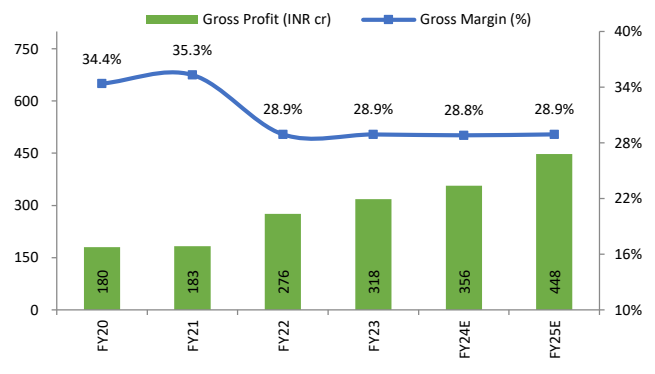


Exhibit 13: Growth in EBITDA & PAT levels

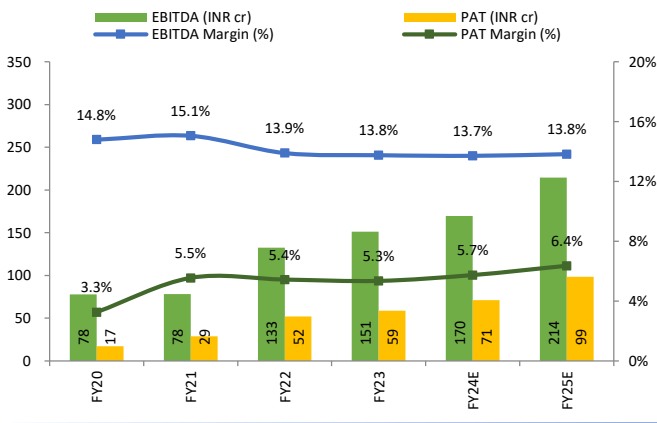


Exhibit 14: Return ratios to be improve

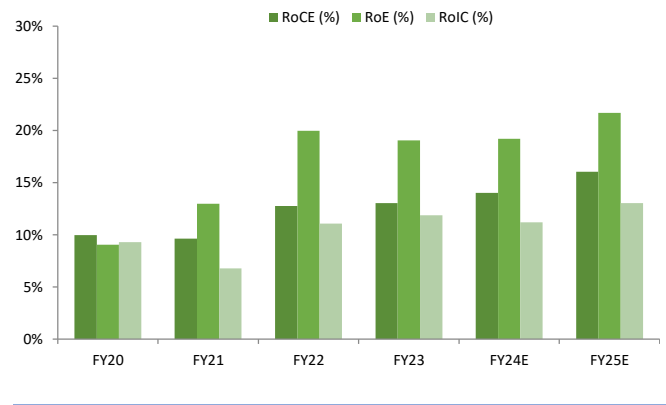


Exhibit 15: Working capital days to be improve

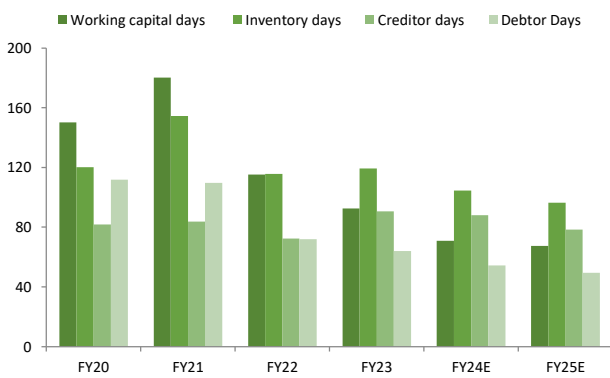
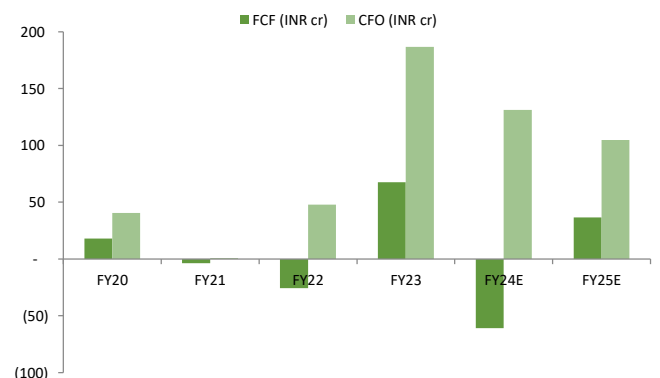


Exhibit 16: Cash flows to be improve



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 17: Working capital in-terms of sales is expected to reduce going forward.

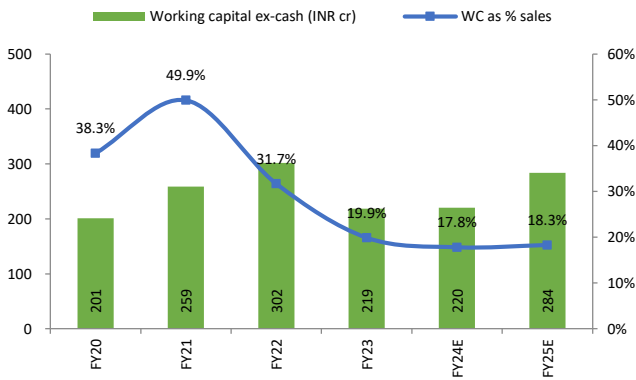


Exhibit 18: Interest cost as % of EBIT is expected to reduce going forward.

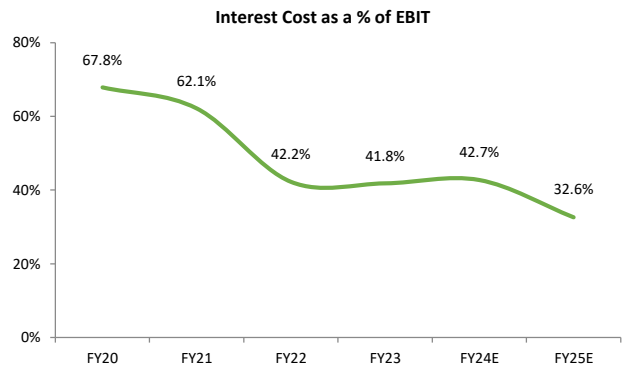


Exhibit 19: Exports revenue share is expected to reach 20%-25% going forward.

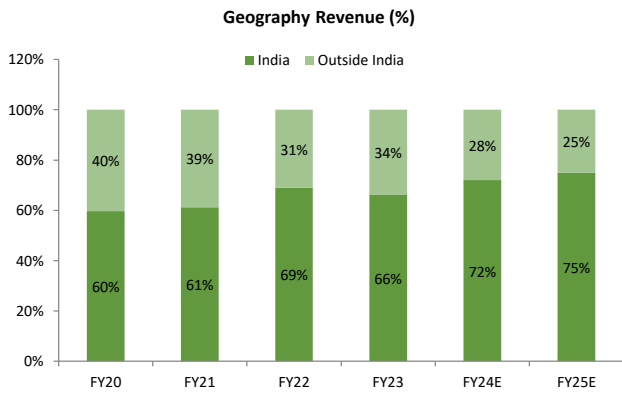


Exhibit 20: Sales realisation is continue to grow going forward.

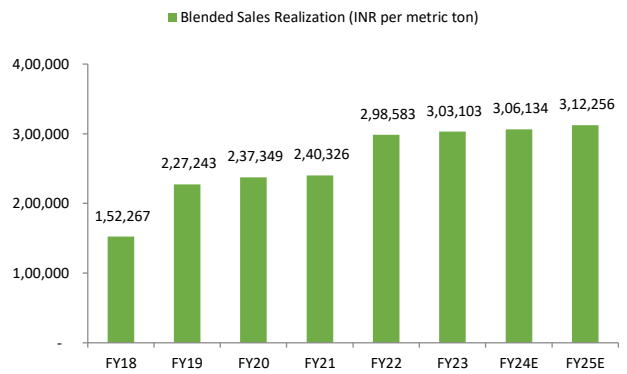


Exhibit 21: EBITDA realisation is continue to grow going forward

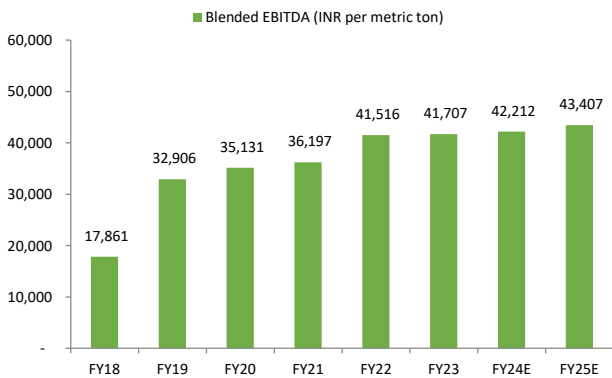
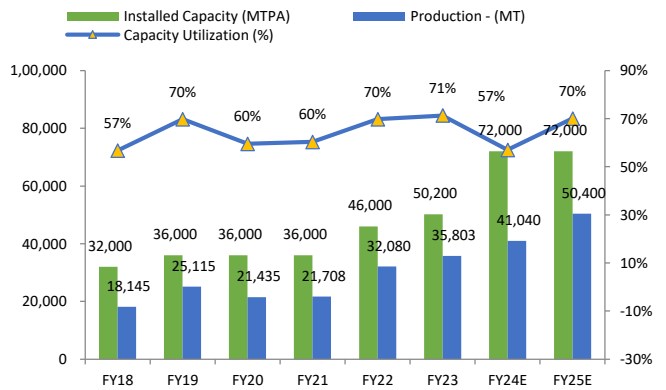


Exhibit 22: Capacity utilisation is expected to be 70%-80% going forward. In FY24, additional capacity 21,800 MT will be added which is expected to bring down the blended utilisation.



Source: Company Reports, Arihant Capital Research

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|--------------------|-----------------|
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| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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