



Increase in Value-added Products Aiding in Robust Revenue Growth

Est. Vs. Actual for Q4FY24: Revenue – **BEAT**; EBITDA – **MISS**; PAT – **INLINE**

Changes in Estimates post Q4FY24

FY25E/FY26E: Revenue 24%/15%; Operating Profit 9%/2%; PAT (Abs.) 3%/-5%

Recommendation Rationale

- Value-added products to yield higher realizations:** PEL has strategically evolved its products to meet market demands, resulting in improved profitability. These value-added products have also helped the company enhance its competitive edge and attract more customers. In FY24, PEL's EBITDA/Tonne improved by 5.3% (3-year CAGR), thereby boosting profitability further by 46% (3-year CAGR). The increasing demand in renewable energy and marine applications in the international market is expected to significantly aid in PEL's revenue growth and improve its profitability moving forward.
- Pitti Casting (PCPL) merger and Bagadia acquisition:** PEL announced the merger of Pitti Castings Pvt. Ltd., a group company engaged in the manufacturing of high-quality castings in grey iron, ductile iron, low carbon, and alloy steel grades. Post-merger, PCL's revenue is expected to grow significantly due to robust demand in the components business, leading to higher operating margins for the company. Additionally, PEL announced the acquisition of Bagadia Chaitra Inds Pvt. Ltd. at an enterprise value of Rs 124.9 Cr. This acquisition further expands its footprint in the South India market, aiding the company in ensuring a consistent supply of high-quality products and providing enhanced control over the supply and inventory management of raw materials.

Sector Outlook: Positive

Company Outlook & Guidance: Upcoming merger, recent BCIPL acquisition and increasing demand in the international business will significantly grow company's profitability and help PEL to increase its market share.

Current Valuation: 25x FY26EPS (19x FY26EPS)

Current TP: Rs 1,145/share (Earlier TP: 915/share)

Recommendation: We maintain our BUY recommendation on the stock.

Financial Performance

Revenue for the company stood at Rs 328 Cr, up 32% YoY and 15% above our estimates, backed by robust growth in the traction motor and railway component segments, which grew by 50% YoY. Sales volume for the company grew by 19% YoY to 11,435 MT, the highest ever recorded in the company's history. Gross Margins were above our estimates by 380 bps at 34.8%, up 306bps YoY. Operating profit improved to Rs 49 Cr (in line with our estimates), up 20% YoY; however, operating margins declined by 155 bps YoY to 14.8%. EBITDA/tonne remained stable at Rs 42,535/MT. The decline in operating margins was primarily due to increasing employee expenses. PAT grew 62% YoY to Rs 40 Cr, in line with our estimates of Rs 38 Cr, driven by government incentives for the quarter as other income.

Outlook

We model Revenue/Operating Profit/PAT CAGR of 23%/22%/28% over FY24/26E. We have improved our revenue and operating profit projections due to an increase in value-added products, resulting in operating margin expansion. However, we have marginally decreased our profitability estimates due to increasing borrowings.

Valuation & Recommendation

We maintain our BUY rating on the stock with a revised TP at Rs 1,145 /share, implying an upside of 31% from the CMP. Considering the steady improvement in profitability and overall revenue mix, we are rerating the stock at 25x (previously 19x) on its FY26 EPS. We believe our recommendation is supported by a) PEL's robust Capex and capacity addition directly resulting in strong improvement in the company's order book, b) Increasing revenue contribution from value-added products (components), c) Upcoming merger with Pitti Castings and acquisition of BCIPL resulting in improving ROE and ROCE (to 24.8% and 24% respectively).

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	328	32.5%	11.7%	286	14.84%
Operating Profit	49	19.9%	10.3%	48	1.96%
Operating Profit Margin	14.83%	-155bps	18bps	16.71%	-187bps
Net Profit	40	62.5%	203.0%	38	7.4%
EPS (Rs)	13	62.5%	203.0%	12	7.4%

Source: Company, Axis Research

(CMP as of 17th May, 2024)

CMP (Rs)	875
Upside /Downside (%)	31%
High/Low (Rs)	919/334
Market cap (Cr)	2,803
Avg. daily vol. (6m) Shrs.	71.7
No. of shares (Cr)	3.2

Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	59.3	59.3	59.3
FII's	0.1	0.2	0.5
MFs / UTI	2.4	1.9	1.2
Banks / FI's	0.0	0.0	0.0
Others	38.2	38.6	39.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,202	1,679	1,829
EBITDA	178	231	263
Net Profit	90	116	147
EPS (Rs)	28.1	36.0	45.8
PER (x)	31	24	19
EV/ EBITDA (x)	18	14	12
P/BV (x)	7	5	4
ROE (%)	24.0	24.6	24.8

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Revenue	24.31%	15.19%
EBITDA	9.08%	2.08%
PAT	3.18%	-4.62%

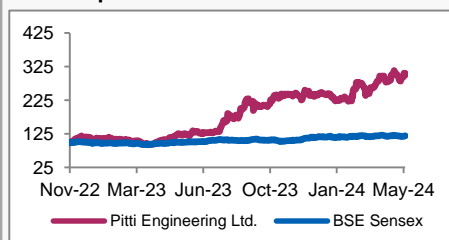
ESG disclosure Score**

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

Source: Bloomberg, Scale: 0.1-100

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

Relative performance



Source: Ace Equity, Axis Securities

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Key Concall Highlights

- Company Performance:** The company achieved highest-ever sales volume in Q4FY24, with YoY growth of ~19% in volumes and ~36% YoY growth in revenue. Topline growth augmented by significant improvement in EBITDA and PAT Margins. While most of the segments remained strong during the quarter, Railways and Renewables were the strongest. It posted highest-ever (quarterly) export revenue of Rs 125 Cr.
- Acquisition:** The company completed the acquisition of 100% of the equity share capital of Bagadia Chaitra Industries Private Limited (BCIPL), making it a wholly-owned subsidiary. The acquired business is expected to contribute ~16,000 MT of volumes in FY25 (FY24 revenue of approximately Rs 250 Cr, EBITDA approximately Rs 14.5 Cr). While the EBITDA/tonne for this business currently stands around Rs 10,500, management expects an improvement in margins driven by economies of scale and synergies starting Q1FY25, targeting to reach EBITDA/tonne of Rs 18,000 over the next 12-18 months.
- Outlook:** The order book stood at ~Rs 800 Cr as of the quarter end, with roughly Rs 600 Cr expected to be executed during FY25. Exports account for around 25-30% of the order book. BCIPL is expected to start contributing from FY25, though it may impact margins initially. Management expects the machine components business to contribute Rs 500-700 Cr per annum over the next 3-4 years.
- Net Debt and Working Capital:** Net Debt stood at Rs 428 Cr. Management continues to target reducing net debt to zero, unless there are attractive organic or inorganic growth opportunities that may require substantial cash. The company has made strategic changes to its purchase cycle, shifting from a calendar year to a financial year, with the aim of optimizing working capital investments.

Change in Estimates

(Rs Cr)

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,679	1,829	1,351	1,588	24.31%	15.19%
EBITDA	231	263	212	258	9.08%	2.08%
PAT	116	147	112	154	3.18%	-4.62%

Source: Company, Axis Securities

Segmental Revenue

(Rs Cr)

	FY23		FY24			
	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
End User Application revenue Breakup	238	248	290	290	294	328
Traction Motor & Railway Components	84	77	93	110	146	115
Special Purpose Motors	24	21	27	26	20	19
Renewable Energy	12	7	5	15	11	14
Power Generation	38	36	45	44	34	46
Mining, Oil & Gas	18	15	7	12	21	27
Industrial & Commercial	33	33	43	36	38	35
Data Centre	6	8	6	3	4	6
Automotive	2	2	1	1	1	2
Appliances & Consumer	0	0	0	1	2	2
Others	20	50	63	43	17	62

Source: Company, Axis Securities

Results Review (Consolidated)
(Rs Cr)

Rs Cr	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	% YoY	% QoQ
Revenue	248	290	290	294	328	32.5%	11.7%
Gross profit	79	88	94	100	114	45.3%	13.8%
Gross Margin (%)	31.7%	30.3%	32.2%	34.1%	34.8%	306.2	64.8
Employee Cost	20	23	26	27	32	55.8%	19.0%
Other Expenses	18	23	25	29	34	91.4%	14.2%
Operating Profit	41	42	43	44	49	19.9%	10.3%
OPM (%)	16.4%	14.6%	14.7%	15.0%	14.8%	-155.3	-18.0
Other Income	16	1	13	3	31	98.8%	858.1%
EBITDA	56	43	55	47	80	42.1%	69.1%
EBITDA Margin (%)	22.8%	15.0%	19.0%	16.1%	24.4%	164.7	829.1
Interest Cost	10	12	11	14	14	37.4%	0.7%
Depreciation	13	13	12	15	14	9.9%	-3.7%
PBT	34	19	32	19	52	55.6%	172.0%
Tax	9	5	9	6	12	36.3%	102.7%
Adj PAT	25	14	23	13	40	62.5%	203.0%
Adj EPS	8	4	7	4	13	62.5%	203.0%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E Dec	FY23	FY24	FY25E	FY26E
Net Sales	1,100	1,202	1,679	1,829
Growth (%)	15.3	9.2	39.8	8.9
Other Operating Income	0	0	0	0
Total Income	1,100	1,202	1,679	1,829
Raw Material Expense	782	806	1,146	1,244
Employee Expense	88	108	132	138
Power & Fuel Expenses	0	0	0	2
Other Operating Expense	78	110	171	182
Operating Profit	151	178	231	263
Growth (%)	15	17	30	14
Operating Margin (%)	13.8	14.8	13.8	14.4
Other Income	18	48	35	35
EBITDA	169	226	266	298
Growth (%)	13.5	33.5	17.9	12.1
EBITDA Margin (%)	15.4	18.8	15.9	16.3
Depreciation	45	54	50	48
EBIT	125	172	216	250
Interest Cost	45	50	62	54
Profit Before Tax	80	122	154	196
Tax	21	32	39	49
Profit After Tax	59	90	116	147
Growth (%)	13.3	53.3	28.1	27.1
Share of Profit of an associate/OCI	0	0	0	0
Net Profit (Adjusted)	59	90	116	147
EPS	18	28	36	46

Source: company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E Dec	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS				
Equity Share Capital	16	16	16	16
Reserves & Surplus	318	400	507	645
Net Worth	334	416	523	661
Borrowings	290	537	491	404
Other Liabilities	354	377	465	509
Total Liabilities	644	914	956	913
Total Equity & Liability	978	1330	1479	1574
APPLICATION OF FUNDS				
Cash & Bank Balance	65	109	4	32
Investments	15	15	15	15
Advances	33	69	69	69
Fixed & Other Assets	865	1136	1391	1458
Total Assets	978	1330	1479	1574

Source: company, Axis Securities

Cash Flow
(Rs Cr)

Y/E Dec	FY23	FY24	FY25E	FY26E
PBT	80	122	154	196
Depreciation & amortization	45	54	50	48
Interest expense	45	50	62	54
Interest / Dividend Recd	0	-3	-35	-35
Other Adjustments	1	0	0	0
(Inc)/Dec in working capital	88	-161	-192	-6
Tax paid	-35	-10	-39	-49
CF from operating activities	223	52	1	208
Capital expenditure	-105	-238	-25	-65
(Purchase) / Sale of Investments	0	0	0	0
Income from investments and others	1	2	35	35
CF from investing activities	-104	-236	10	-30
Inc/(Dec) in share capital	0	0	0	0
Inc/(Dec) in debt	-33	247	-46	-87
Dividends & Interest paid	-54	-53	-71	-63
Other Financial Activities	-1	5	0	0
CF from financing activities	-87	198	-117	-150
Net cash flow	32	15	-106	29
Opening balance	35	65	109	4
Other Bank Balance	-2	29	0	0
Closing balance	65	109	4	32

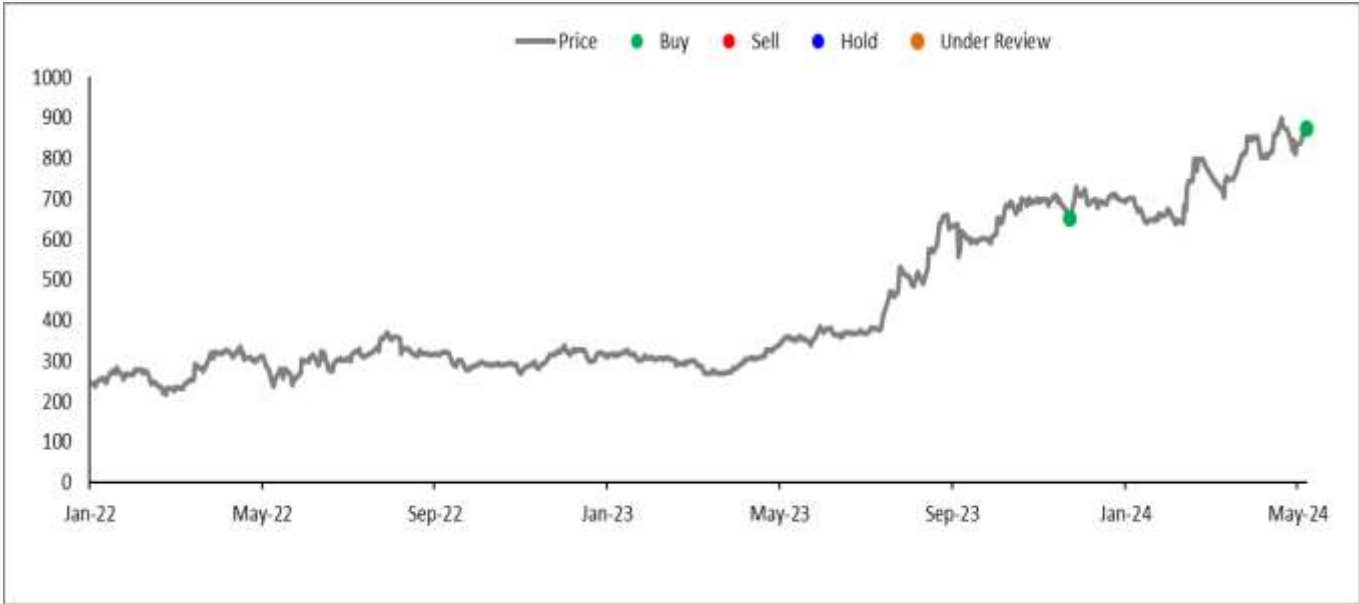
Source: company, Axis Securities

Ratio Analysis
(x) / (%)

Y/E Dec	FY23	FY24	FY25E	FY26E
Per share data				
No. of shares (Cr)	3.2	3.2	3.2	3.2
BVPS (INR)	104.2	129.8	163.2	206.3
CEPS (INR)	32.3	45.0	51.6	60.9
DPS (INR)	2.7	2.7	2.7	2.7
Financial Ratios				
RoE (%)	19.0	24.0	24.6	24.8
RoCE (%)	20.4	21.6	21.9	24.0
Debt/Equity (x)	0.9	1.3	0.9	0.6
EBIT/Interest (x)	2.8	3.4	3.5	4.6
Turnover Ratios				
Asset turnover (x)	1.7	1.3	1.7	1.7
Sales/Net FA (x)	2.8	2.2	3.3	3.4
Working capital/Sales (x)	0.1	0.2	0.3	0.3
Receivable days	59.4	63.0	65.0	64.0
Inventory days	110.3	121.5	113.5	111.5
Payable days	109.0	104.8	108.8	110.8
Working capital days	60.6	79.7	69.7	64.7
Liquidity Ratios				
Current ratio (x)	1.7	2.1	2.1	2.0
Quick ratio (x)	1.0	1.4	1.1	1.1
Interest cover (x)	3.3	3.9	3.7	4.6
Net debt/Equity (x)	0.7	1.0	0.9	0.6
Valuation (x)				
PE	47.7	31.1	24.3	19.1
PEG (x) YoY growth	3.6	0.6	0.9	0.7
P/BV	8.4	6.7	5.4	4.2
EV/EBITDA	19.9	18.1	14.2	12.0
EV/Sales	2.7	2.7	2.0	1.7
EV/EBIT	24.2	18.7	15.2	12.6

Source: company, Axis Securities

Pitti Engineering Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
01-Dec-23	BUY	915	Initiating Coverage
18-May-24	BUY	1,145	Result Update

Source: Axis Securities

About the analyst**Analyst:** Akshay Mokashe**Contact Details:** akshay.mokashe@axissecurities.in**Sector:** Capital Goods, Building Materials and Consumer Durables**Analyst Bio:** Akshay Mokashe is B.E Mechanical Engineer with ~ 5 years of experience in Equity Research**About the analyst****Analyst:** Sani Vishe**Contact Details:** sani.vishe@axissecurities.in**Sector:** Capital Goods and Midcap**Analyst Bio:** Sani Vishe is MBA in finance with 12+ years of experience in Equity, Credit and ESG Research and Consulting.**Disclosures:**

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HOLD	Between 10% and -10%
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