


Focus Shifting to Organic Growth as Synergies Start Building; Maintain BUY
Est. Vs. Actual for Q2FY25: Revenue: **BEAT**; EBITDA: **BEAT**; PAT: **BEAT**
Changes in Estimates Post Q2FY25 Result
FY25E/FY26E: Revenue -2%/0%; EBITDA -1%/-1%; PAT -1%/-2%

Recommendation Rationale

- **Focus on stabilising the operations:** After completing the acquisitions of Bagadia Chaitra (BCIPL) and Dakshin Foundaries, PEL has now received NCLT approval for the merger of Pitti Castings. The company is now expected to focus on stabilizing the expanded operations and drawing maximum synergies from the consolidated entity. With complementary locations, capabilities, and offerings, the combined entity appears well-placed for growth.
- **New capacities getting operationalised:** The company is setting up a lamination capacity of 72,000 tonnes/year at Aurangabad, which is expected to be completed by Dec'24. By FY26, the combined entity will have a lamination capacity of 90,000 tonnes/year and a casting capacity of 18,600 tonnes/year. PEL is also increasing its machining capacity from 5.47 Lc to 6.15 Lc tonnes/year. The company also expects a steady improvement in utilization of these capacities.
- **Clarity around revenue and margins:** The management mentioned that there is clear visibility of revenue from the client side in the near term and has stated expectations of Rs 1,900-2,000 Cr of revenue with 15.5% EBITDA margins in FY25. The management has also set clear revenue and EBITDA targets for FY27.

Sector Outlook: Positive

Company Outlook & Guidance: The management mentioned that it is confident of further improvement in performance going ahead as the additional capacities get commercialized and the synergies from acquired businesses start building. The company has clear revenue visibility from most of its customers. It expects to achieve Rs 1,900-2,000 Cr of revenue in FY25 with EBITDA margins of around 15.5%. By FY27, the company targets to reach Rs 2,300-2,400 Cr (at constant raw material prices) with margins in the range of 15-16%.

Current Valuation: 28x FY27EPS (Earlier 28x FY26EPS)

Current TP: Rs. 1,580/share (Earlier TP: 1,572/share)

Recommendation: We maintain our BUY recommendation on the stock.

Financial Performance

The company reported a strong set of numbers, beating our estimates on all fronts. Pitti Engineering's Q2FY25 revenue reached Rs 429 Cr, reflecting a 42% YoY and 10% QoQ increase, which surpassed our expectations by 3%. EBITDA exceeded estimates by 8%, totalling Rs 66 Cr, up 48% YoY and 14% QoQ. EBITDA margin stood at 15.4%, surpassing the estimate of 14.7%, with a 57 bps YoY and 66 bps QoQ improvement. The company's PAT was Rs 38 Cr, up 73% YoY and 96% QoQ, beating the estimate by 39%. The higher PAT number was supported by other income of Rs 26 Cr, which primarily includes subsidies from the Maharashtra government.

Outlook

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

Valuation & Recommendation

We have marginally tweaked our FY25E/FY26E estimates considering the additional visibility provided by the management around volume, revenue, and EBITDA margins. We have also rolled forward our estimates to FY27E. We are rating the stock at 28x its FY26 EPS (earlier 28x FY26E). Our per-share analysis, including EPS calculations, accounts for the additional shares issued post-completion of the Pitti Castings merger. **We maintain our BUY rating on the stock with a revised target price of Rs 1,580/share, implying an upside of 21% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	429	42%	10%	415	3%
EBITDA	66	48%	50%	61	8%
EBITDA Margin	15.39%	66 bps	57 bps	14.70%	69bps
Net Profit	38	73%	96.4%	27	39%
EPS (Rs)	10.1	47%	67.2%	7.8	30%

Source: Company, Axis Securities Research

 (CMP as of 14th November 2024)

CMP (Rs)	1,304
Upside /Downside (%)	21%
High/Low (Rs)	1,458/622
Market cap (Cr)	4,622
Avg. daily vol. (1 Yr) Shrs.	1,30,410
No. of shares (Cr)	3.55

Shareholding (%)

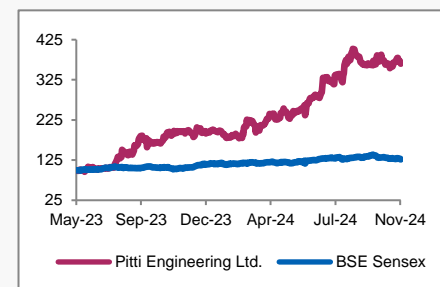
	Mar-24	Jun-24	Sep-24
Promoter	59.3	59.3	53.6
FII's	0.5	0.8	1.3
DII's	5.9	5.9	17.5
Others	34.3	34.0	27.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,202	1,996	2,235
EBITDA	178	299	352
Net Profit	90	161	194
EPS (Rs)	27.9	42.7	51.5
PER (x)	47	31	25
EV/ EBITDA (x)	26	17	14
P/BV (x)	7	5	4
ROE (%)	23.8	24.2	19.2

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Revenue	-2%	0%
EBITDA	-1%	-1%
PAT	-1%	-2%

Relative Performance


Source: Ace Equity, Axis Securities Research

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Key Highlights from Concall

- **Company Performance:** Consolidated revenue for the quarter increased by 42% YoY to Rs 429 Cr, while EBITDA grew by 48% to Rs 66 Cr (excluding other income). PAT increased by 73% YoY, which included other income of Rs 26 Cr primarily related to subsidies from the Maharashtra government. The total amount of subsidies expected during the year is Rs 31 Cr, implying that approximately Rs 5 Cr will be received during the rest of the year. Financials of the acquired entities have been proportionately consolidated from their respective acquisition dates, and the statements have been restated for the merger of PCPL effective from April 1, 2023.
- **Volumes:** Sales volumes for laminations (and assemblies) for the quarter were 12,540 tonnes, casting and machined components 1,900 tonnes, and scrap & side trim coils 13,500 tonnes.
- **Acquisitions:** The company has started consolidating revenue from its previously completed acquisitions of Bagadia Chaitra Industries Private Limited (BCIPL) and Dakshin Foundry Private Ltd. (DFPL). It also received NCLT approval for the merger with Pitti Castings Pvt. Ltd. (PCPL). Moving forward, the company will focus on stabilizing operations over the next two years and is unlikely to pursue other inorganic opportunities during this period.
- **New Capacities:** The Aurangabad facility expansion is expected to be completed by December 2024, post which it will have a lamination capacity of 72,000 tonnes per annum, while the lamination facilities in Hyderabad will be decommissioned. Combined with Pitti Industries Pvt. Ltd. (formerly BCIPL), the total capacity will reach 90,000 tonnes per annum. Pitti Castings has a capacity of 14,400 tonnes, and DFPL has a capacity of 4,200 tonnes per year. Machining capacity will be increased from 5.47 L to 6.15 L tonnes per annum.
- **Outlook:** The company anticipates further improvement in performance as additional capacities become operational and synergies from recent acquisitions and mergers materialize. For FY25, sales volumes are expected to be in the range of 62,000-64,000 tonnes, with revenues projected at Rs 1,900-2,000 Cr and EBITDA margins around 15.5%. By FY27, the company expects annual volumes of 72,000 tonnes in lamination and 15,000-16,000 tonnes of machined components. Revenue expectations for FY27 are projected at Rs 2,300-2,400 Cr, with EBITDA margins around 15-16% (based on constant raw material prices).
- **Net Debt and Working Capital:** Net debt stood at Rs 330 Cr as of September 30, 2024. Inventory levels are expected to decline due to post-merger synergies, while payables and receivables are expected to remain broadly stable. Net debt is projected to reduce to around Rs 200 Cr by the end of FY25.

Change in Estimates
(Rs Cr)

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,996	2,235	2,040	2,244	-2.2%	-0.4%
EBITDA	299	352	301	356	-0.8%	-1.1%
PAT	161	194	162	197	-0.6%	-1.6%

Source: Company, Axis Securities Research

Segmental/End Markets Revenue
(Rs Cr)

End User Application Revenue Breakup	Q2FY24	Q2FY25
Total	303	429
Traction Motor & Railway Components	110	128
Special Purpose Motors	26	27
Renewable Energy	15	22
Power Generation	44	69
Mining, Oil & Gas	20	33
Industrial & Commercial	41	48
Data Centre	3	11
Automotive	1	3
Appliances & Consumer	1	2
Pumps	0	9
Others	42	78

Source: Company, Axis Securities Research

Results Review (Consolidated)
(RsCr)

Rs Cr	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% YoY	% QoQ
Revenue	303	294	328	391	429	42%	10%
Gross profit	115	100	114	153	168	46%	10%
Gross Margin (%)	38.1%	34.1%	34.8%	39.1%	39.2%	110.2	10.3
Employee Cost	32	27	32	42	48	49%	12%
Other Expenses	39	29	34	53	55	41%	4%
EBITDA (Excl. Other Income)	45	44	49	58	66	48%	14%
EBITDA Margin (Excl. Other Income %)	14.7%	15.0%	14.8%	14.8%	15.4%	66 bps	57 bps
Other Income	13	3	31	3	26	104%	672%
EBITDA (Incl. Other Income)	57	47	80	61	92	61%	50%
EBITDA Margin (Incl. Other Income - %)	18.9%	16.1%	24.4%	15.7%	21.4%	250 bps	574 bps
Interest Cost	11	14	14	17	19	63%	10%
Depreciation	13	15	14	17	20	51%	19%
PBT	33	19	52	28	53	63%	93%
Tax	11	6	12	8	15	44%	84%
Adj PAT	22	13	40	19	38	73%	96%
Adj EPS	7	4	13	6	10	47%	67%

Source: Company, Axis Securities Research

Note: Numbers for some quarters do not reflect the effect of restatements made by the company post the merger with Pitti Castings Private Ltd.

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	1,100	1,202	1,996	2,235	2,347
Growth (%)	15.3	9.2	66.1	12.0	5.0
Other Operating Income	0	0	0	0	0
Total Income	1,100	1,202	1,996	2,235	2,347
Raw Material Expenses	782	806	1,297	1,430	1,479
Employee Expenses	88	108	184	199	201
Power & Fuel Expenses	0	0	0	0	0
Other Operating Expenses	78	110	216	253	296
EBITDA (Excl. Other Income)	151	178	299	352	370
Growth (%)	15	17	68	18	5
EBITDA Margin (Excl. Other Income - %)	13.8	14.8	15.0	15.8	15.8
Other Income	18	48	40	37	40
EBITDA (Incl. Other Income)	169	226	339	389	410
Growth (%)	13.5	33.5	49.9	14.9	5.4
EBITDA Margin (Incl. Other Income - %)	15.4	18.8	17.0	17.4	17.5
Depreciation	45	54	66	89	103
EBIT	125	172	273	300	308
Interest Cost	45	50	58	41	24
Profit Before Tax	80	122	215	258	283
Tax	21	32	54	65	71
Profit After Tax	59	90	161	194	212
Growth (%)	13.3	53.3	78.5	20.4	9.6
Share of Profit of an associate/OCI	0	0	0	0	0
Net Profit (Adjusted)	59	90	161	194	212
EPS	18	28	42.7	51.5	56.4

Source: Company, Axis Securities Research

Note: Historical numbers do not reflect the effect of restatements made by the company post the merger with Pitti Castings Private Ltd.

Balance Sheet
(Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Equity Share Capital	16	16	19	19	19
Reserves & Surplus	318	400	898	1081	1284
Net Worth	334	416	917	1100	1303
Borrowings	290	537	437	255	152
Other Liabilities	354	377	310	331	335
Total Liabilities	644	914	747	585	486
Total Equity & Liability	978	1330	1663	1685	1789
APPLICATION OF FUNDS					
Cash & Bank Balance	65	109	133	170	310
Investments	15	15	15	15	15
Advances	33	69	69	69	69
Fixed & Other Assets	865	1136	1446	1431	1394
Total Assets	978	1330	1663	1685	1789

Source: Company, Axis Securities Research

Note: Historical numbers do not reflect the effect of restatements made by the company post the merger with Pitti Castings Private Ltd.

Cash Flow
(Rs Cr)

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
PBT	80	122	215	258	283
Depreciation & amortization	45	54	66	89	103
Interest expense	45	50	58	41	24
Interest / Dividend Recd	0	-3	-40	-37	-40
Other Adjustments	1	0	0	0	0
(Inc)/Dec in working capital	88	-161	-44	-9	4
Tax paid	-35	-10	-54	-65	-71
CF from operating activities	223	52	201	279	303
Capital expenditure	-105	-238	-395	-45	-66
(Purchase) / Sale of Investments	0	0	0	0	0
Income from investments and others	1	2	40	37	40
CF from investing activities	-104	-236	-355	-8	-26
Inc/(Dec) in share capital	0	0	347	0	0
Inc/(Dec) in debt	-33	247	-100	-182	-103
Dividends & Interest paid	-54	-53	-69	-52	-35
Other Financial Activities	-1	5	0	0	0
CF from financing activities	-87	198	178	-234	-138
Net cash flow	32	15	24	37	140
Opening balance	35	65	109	133	170
Other Bank Balance	-2	29	0	0	0
Closing balance	65	109	133	170	310

Source: Company, Axis Securities Research

Note: Historical numbers do not reflect the effect of restatements made by the company post the merger with Pitti Castings Private Ltd.

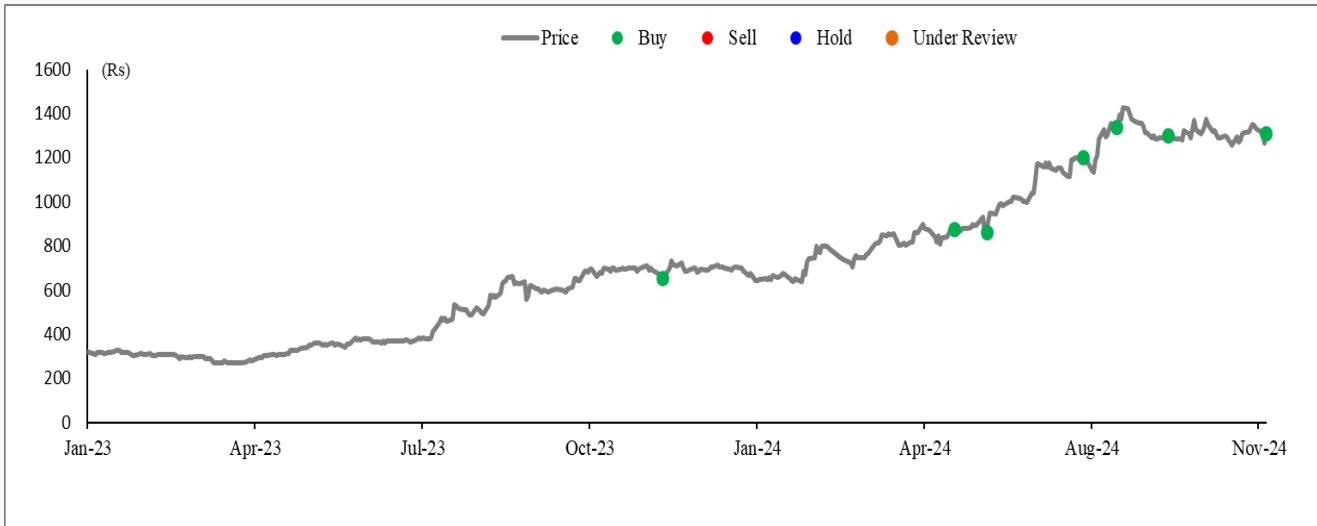
Ratio Analysis
(x) / (%)

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Per share data					
No. of shares (Cr)	3.2	3.2	3.8	3.8	3.8
BVPS (INR)	104.2	129.8	243.4	292.2	345.9
CEPS (INR)	32.3	45.0	60.2	75.2	83.7
DPS (INR)	2.7	2.7	2.7	2.7	2.7
Financial Ratios					
RoE (%)	18.8	23.8	24.2	19.2	17.7
RoCE (%)	20.3	21.5	23.6	22.1	21.8
Debt/Equity (x)	0.9	1.3	0.5	0.2	0.1
EBIT/Interest (x)	2.8	3.4	4.7	7.2	12.6
Turnover Ratios					
Asset turnover (x)	1.7	1.3	1.5	1.6	1.6
Sales/Net FA (x)	2.8	2.2	2.3	2.7	3.0
Working capital/Sales (x)	0.1	0.2	0.2	0.2	0.1
Receivable days	59.4	63.0	40.0	38.0	36.0
Inventory days	110.3	121.5	50.0	48.0	46.0
Payable days	109.0	104.8	60.0	58.0	56.0
Working capital days	60.6	79.7	30.0	28.0	26.0
Liquidity Ratios					
Current ratio (x)	1.7	2.1	2.5	2.6	3.0
Quick ratio (x)	1.0	1.4	1.8	1.8	2.2
Interest cover (x)	3.3	3.9	4.9	7.8	13.9
Net debt/Equity (x)	0.7	1.0	0.3	0.1	-0.1
Valuation (x)					
PE	72.1	46.8	30.5	25.3	23.1
PEG (x) YoY growth	5.3	0.9	0.4	1.2	2.4
P/BV	12.5	10.0	5.4	4.5	3.8
EV/EBITDA	29.2	26.0	17.4	14.1	12.8
EV/Sales	4.0	3.8	2.6	2.2	2.0
EV/EBIT	35.5	26.8	19.0	16.6	15.4

Source: Company, Axis Securities Research

Note: Historical numbers do not reflect effect of restatements made by the company post the merger with Pitti Castings Private Ltd.

Pitti Engineering Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
01-Dec-23	BUY	915	Initiating Coverage
18-May-24	BUY	1,145	Result Update
07-Jun-24	BUY	1,180	Company Update
01-Aug-24	BUY	1,403	Company Update
20-Aug-24	BUY	1,572	Result Update
20-Sep-24	BUY	1,572	Company Update
18-Nov-24	BUY	1,580	Result Update

Source: Axis Securities Research

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