

May 22, 2017

Rating matrix		
Rating	:	Sell
Target	:	₹ 50
Target Period	:	12-18 months
Potential Upside	:	-22%

What's changed?	
Target	Unchanged at ₹ 50
EPS FY18E	Unchanged at ₹ 4.5
EPS FY19E	Introduced at ₹ 5.0
Rating	Unchanged

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	312	285.9	370.2	423.0
EBITDA	19.1	32.8	48.1	57.1
Net Profit	(9.6)	6.3	12.3	13.4
EPS (₹)	(3.5)	2.3	4.5	5.0

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	-	27.4	14.1	12.9
Target P/E	-	21.3	11.0	10.0
EV / EBITDA	16.6	10.4	8.3	6.9
P/BV	1.6	1.5	1.4	1.2
RoNW	(8.9)	5.6	9.7	9.6
RoCE	1.4	6.5	8.8	9.6

Stock data	
Stock Data	
Market Capitalization	₹ 172.8 Crore
Total Debt (FY17)	₹ 179.5 Crore
Cash & Investments (FY17)	₹ 11 Crore
EV	₹ 341.4 Crore
52 week H/L	70/ 30
Equity capital	₹ 13.5 Crore
Face value	₹ 5
MF Holding (%)	-
FII Holding (%)	3.2

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Pitti Laminations (PITLAM)

₹ 64

Still not out of the woods, retain SELL...

- Pitti Laminations (Pitti) reported a steady Q4FY17 performance, with sales at ₹ 84.2 crore, up 9.5% YoY. EBITDA came in at ₹ 7.4 crore with corresponding EBITDA margins at 8.8% and PAT at ₹ 1.6 crore
- Drop in EBITDA margins sequentially (down 300 bps QoQ) came in as a negative surprise resulting in muted numbers at the PAT level
- For full year FY17, sales were at ₹ 285.9 crore (down 8.2% YoY), EBITDA at ₹ 32.8 crore (margins at 11.5%) and PAT at ₹ 6.3 crore
- Pitti has indicated early deliveries to GE India with incremental sales over FY17-19E. However, the ongoing restructuring and expansion will take a toll on its balance sheet thereby resulting in leveraged debt profile and muted return ratios in FY17-19E
- The management also indicated at conversion of unsecured loans extended to the company (~₹ 25 crore) to equity after receiving requisite approvals, in tandem with the Sebi pricing rules

Exports take big knock in FY17, hard to recover

Total laminations sales volume in FY17 were at 18776 tonne vs. 19654 tonne in FY16, implying volume de-growth of 4.5%. Domestic sales volumes in FY17 were at 15986 tonne, up 14.7% YoY while export sales volumes in FY17 were at 2790 tonne, down 51.2% YoY. Export volumes took a big knock off on account of clamp down on deliveries by GE group companies on account of overall demand slowdown in their locomotive division. The initial three year contract with GE group companies is due to expire in CY17E with limited visibility in export market. Though deliveries to GE India for Indian locomotives has started a year ahead of schedule, we believe the volume loss in exports is hard to recover thereby leading to muted growth in export sales over FY17-19E

Product profile; basic necessity of any process engineering

Pitti Laminations (Pitti) is a leading manufacturer of electrical steel laminations, motor cores, sub-assemblies, die-cast rotors and press tools. These products find application in basic capital goods products viz. motors and alternators, which are the quintessential products used in process engineering. It manufactures laminations from 50 mm to 1,250 mm outer diameter. It is one of the few suppliers with tooling, laminations, casting and machining all under one roof. Pitti is a pioneer in the manufacture of traction motor sub-assemblies in India and possesses an indigenously developed tool room with a portfolio of over 3,400 tools.

In transition phase; balance sheet pain to persist, subdued return ratios

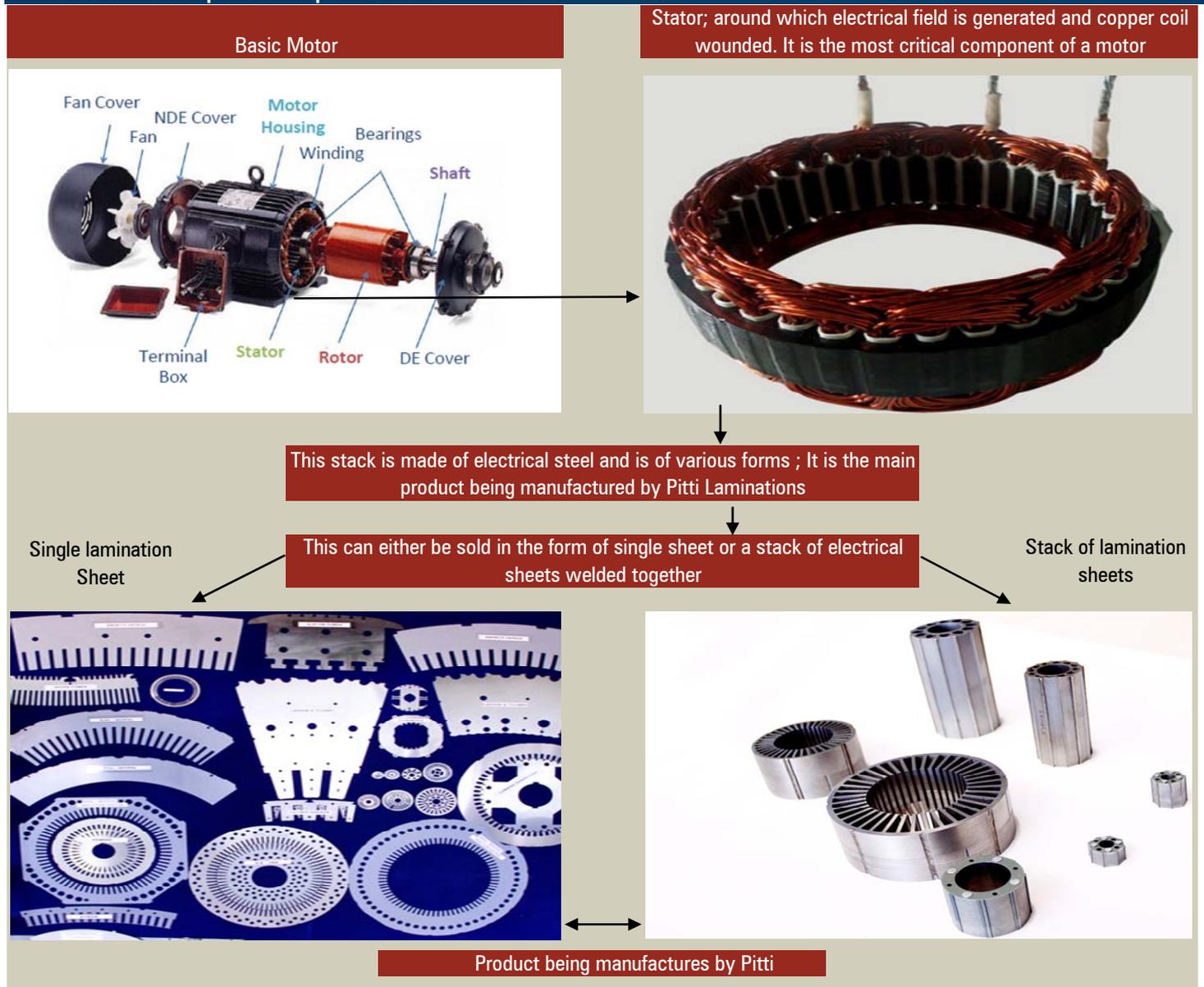
Pitti Laminations is currently restructuring its operations with the shifting of existing facilities for manufacturing laminations to Aurangabad, thereby being closer to its raw material suppliers and customers (capex spend ~₹ 60 crore, commissioning in H2FY18E). Separately it is also developing a machining facility at Hyderabad (capex ~₹ 40 crore). Hence, with incremental capex of ~₹ 100 crore amid muted profitability, the balance sheet is expected to further leverage with debt: equity in FY18E expected at 1.9x. Currently, it realises bleak return ratios with the same not expected to rebound to double digit up till FY19E. This erodes our margin of safety on the stock though it is one of the key beneficiaries of "Make in India", thereby executing an ambitious order from GE India. Going forward, over FY17-19E, we expect sales to grow at a CAGR of 21.6% to ₹ 423.0 crore in FY19E. On the PAT front, we expect Pitti to report PAT of ₹ 13.4 crore in FY19E. We value Pitti at ₹ 50 i.e. 10x P/E on FY19E EPS of ₹ 5.0/share and assign a **SELL** rating to the stock.

Company Analysis

Pitti Laminations (Pitti) is a leading manufacturer of electrical steel lamination, motor cores, sub-assemblies, die-cast rotors and press tools domestically. These products find application in basic capital goods products, viz. motors and alternators, which are quintessentially used in any process engineering. The company was founded in 1983 by Sharad B Pitti. Pitti's main product i.e. laminations are sold both domestically as well as globally while motor housings are meant only for exports. The company is a pioneer of the manufacture of traction motor sub-assemblies in India and possesses an indigenously developed tool room with a portfolio of over 3,400 tools. Pitti also has a 47% stake in Pitti Castings Pvt Ltd, which manufactures castings.

Main product: Electrical steel laminations

Exhibit 1: Pictorial description of main product of Pitti Lamination



Source: Company, ICICIdirect.com Research

Definition: Laminations are the steel portions of the stator and rotor consisting of thin lamination sheets stacked together. These laminations can be stacked "loose", welded, or bonded together depending upon application.

Electrical steel laminations business - main revenue driver

Sales can be broadly classified under four business heads viz. sale of electrical stampings, sale of scrap (bi-product of stamping), sale of tools & job work charges.

Exhibit 2: Revenue break-up

Sales Bifurcation	Units	FY11	FY12	FY13	FY14	FY15	FY16
Sale of Stampings	₹ crore	231.3	369.1	284.3	219.7	308.6	298.6
Sale of Scrap	₹ crore	25.0	44.8	39.0	32.1	42.2	30.8
Sale of tools	₹ crore	2.8	3.5	1.9	4.9	3.1	5.0
Job Work Charges	₹ crore	7.4	6.5	5.1	7.6	6.1	3.6
Total Gross Sales	₹ crore	266.5	424.0	330.3	264.3	360.0	338.0
Total Net Sales	₹ crore	251.8	403.9	307.3	243.4	336.8	309.0

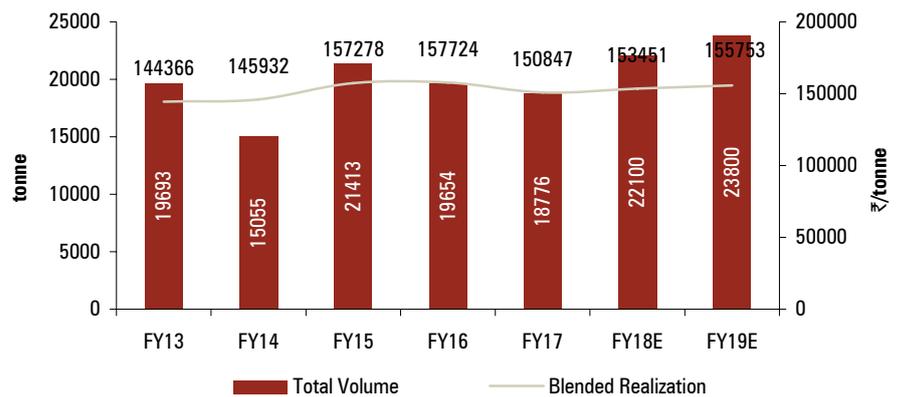
Source: Company, ICICIdirect.com Research

As of FY16, electrical laminations/stampings constitute a healthy ~88% of its total gross sales followed by scrap (~9%), job work (~1%) and tools (~2%).

Stamping business: Volume led growth to prevail

Pitti has an installed capacity of 34000 tonne per annum (TPA) of electrical stampings/laminations and 3000 motor housing/stator frames.

Exhibit 3: Stampings volume & realisation trend



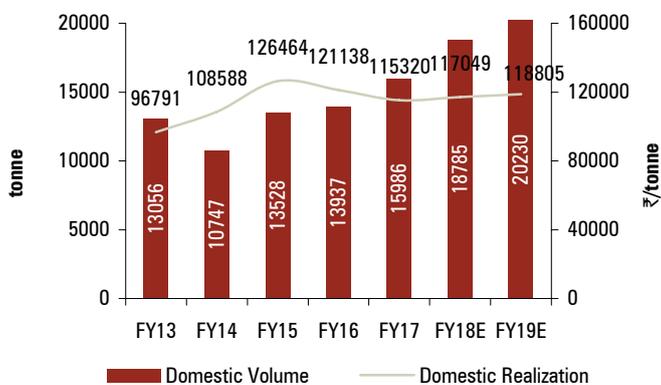
Source: Company, ICICIdirect.com Research

In FY17, Pitti recorded sales of 18776 tonne of laminations while blended realisations were at ₹ 150847/tonne. Export sales during FY17 were at 2790 tonne with corresponding realisations at ₹ 354409/tonne. Domestic sales in FY17 were at 15986 tonne with corresponding realisations at ₹ 115320/tonne

Going forward, total sales volumes are expected to grow at a CAGR of 12.6% in FY17-19E to 23800 tonne in FY19E. Domestic sales volumes are expected to grow at a CAGR of 12.5% in FY17-19E to 20230 tonne in FY19E while export sales volume are expected to grow at a CAGR of 13.1% in FY17-19E to 3570 tonne in FY19E

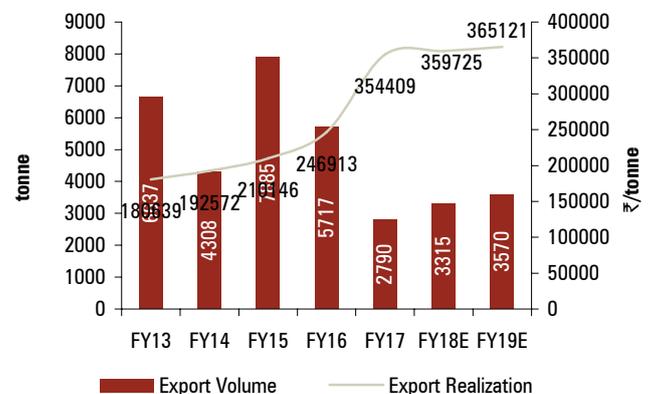
Domestic vs. export sales volume & realisation

Exhibit 4: Domestic sales volume to grow @ 12.5% CAGR in FY17-19E



Source: Company, ICICIdirect.com Research

Exhibit 5: Export sales volume to grow @ 13.1% CAGR in FY17-19E



Source: Company, ICICIdirect.com Research

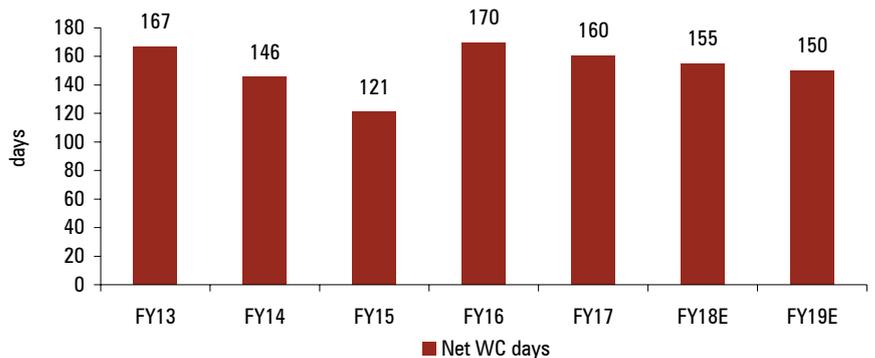
Strong clientele both domestically and globally

Pitti, by virtue of supplying specialised custom made quality products, has a very strong clientele with most clients sticking with Pitti for a fairly long period of time. Domestically, in the laminations segment, Pitti’s client includes **ABB, Alstom, Ritz Hydro, Bhel, Crompton Greaves, Cummins, L&T, ReGen Powertech, Siemens** and **Voith** among others. On the global front, **GE** group entities mainly GE Transportation Systems (GETS) and GE Consumer and Industrial (GECI) constitute the major chunk of its exports. Pitti’s customers find application of their products in **power generation, transportation, mining, industrial motors, locomotives, aerospace, automobile, oil & gas, earth moving and mining.**

Stretched working capital: here to stay

By virtue of importing raw material for orders from GE group companies and shipping the final product to GE entities, the company has elongated working capital needs with net working capital days (NWCD) at 146 days as of FY14. However, with weak domestic demand coupled with ramp down of offtake by GE group companies, the working capital got further elongated in FY16, with NWCD coming in at 170 days. Going forward, we have built in some improvement in NWCD largely tracking the FY17 numbers with NWCD expected at ~150 days over FY17-19E

Exhibit 6: Net working capital days (NWCD)



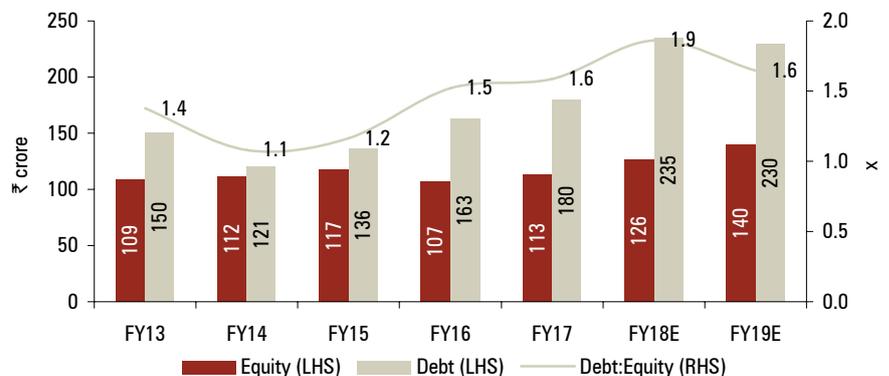
Source: Company, ICICIdirect.com Research

However, majority of the debt is in the form of short-term borrowing thereby catering to working capital needs

Debt to remain at elevated levels, working capital loans to prevail

By virtue of having a stretched working capital cycle, Pitti has considerable amount of debt on its books (FY17 total debt at ₹ 180 crore, debt: equity 1.6x). Going forward, debt is expected to remain at elevated levels with consequent debt to equity at ~1.8x over FY17-19E.

Exhibit 7: Equity, debt, debt: equity

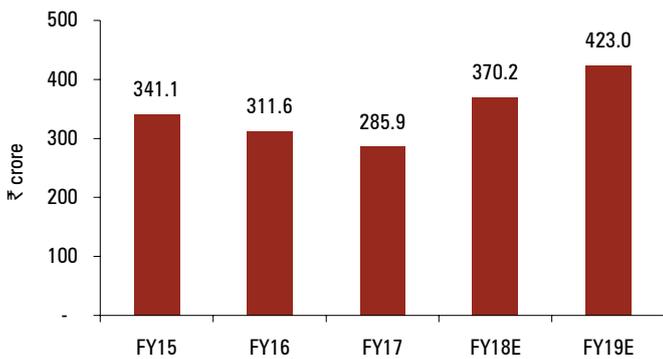


Source: Company, ICICIdirect.com Research

Revenues to grow at 21.6% CAGR in FY17-19E

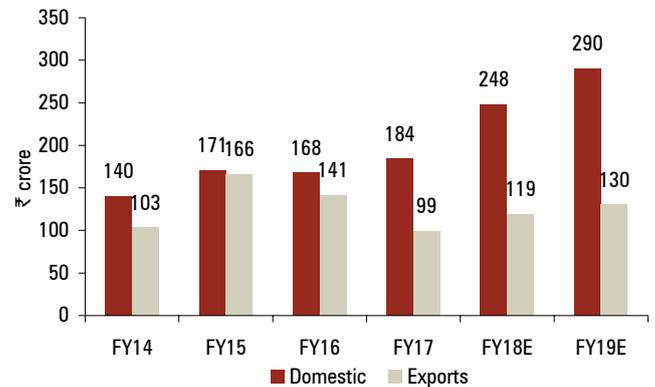
We expect Pitti to clock revenue growth of 21.6% CAGR in FY17-19E to ₹ 423.0 crore in FY19E (₹ 285.9 crore in FY17) albeit on a low base. It also tracks robust product demand being witnessed by the company in the domestic markets. On the whole, lamination sales volume is expected to grow at a CAGR of 12.6% in FY17-19E to 23800 tonne in FY19E (18776 tonne in FY17) while blended realisations are expected to remain largely flat at ₹ 1.6 lakh/tonne.

Exhibit 8: Revenue trend



Source: Company, ICICIdirect.com Research

Exhibit 9: Revenue break-up - Domestic vs. exports



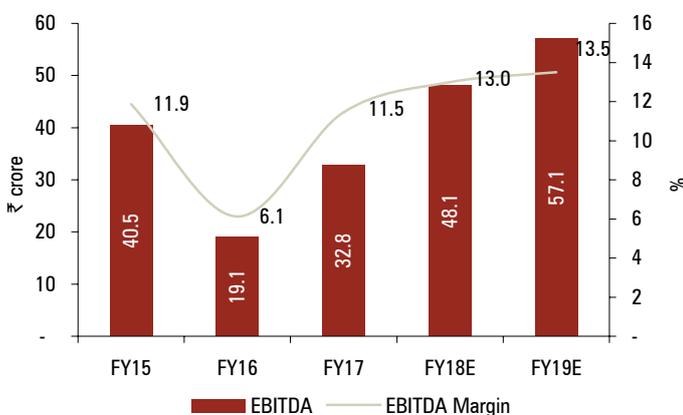
Source: Company, ICICIdirect.com Research

Domestic sales turnover is expected to grow at a CAGR of 25.5% in FY17-19E to ₹ 290 crore in FY19E while exports turnover is expected to grow at a CAGR of 14.8% over FY17-19E to ₹ 130 crore in FY19E.

EBITDA to grow at 32.0% CAGR in FY17-19E, albeit on a lower base

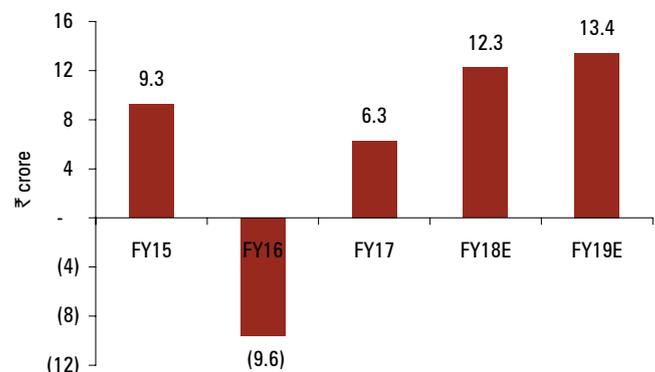
We expect EBITDA to grow at a CAGR of 32.0% in FY17-19E to ₹ 57.1 crore in FY19E (₹ 32.8 crore in FY17) primarily on the back of stabilised scrap prices, write-down of high cost inventory and cost savings initiatives undertaken by the company. Consequent EBITDA margins are expected to improve ~200 bps in FY17-19E with FY19E EBITDA margins expected at 13.5% vs. 11.5% in FY17.

Exhibit 10: EBITDA & EBITDA margins trend



Source: Company, ICICIdirect.com Research

Exhibit 11: PAT trend



Source: Company, ICICIdirect.com Research

We expect Pitti to clock PAT of ₹ 12.3 crore & ₹ 13.4 crore in FY18E & FY19E, respectively, vs. ₹ 6.3 crore in FY17. Corresponding EPS in FY18E & FY19E is expected at ₹ 4.5 & ₹ 5.0/share, respectively.

Outlook and valuation

Pitti Laminations is currently restructuring its operations with shifting of existing facilities for manufacturing laminations to Aurangabad, thereby being closer to its raw material suppliers and customers (capex spend ~₹ 60 crore, commission H2FY18E). Separately it is also developing a machining facility at Hyderabad (capex ~₹ 40 crore). Therefore, with incremental capex of ~₹ 100 crore amid muted profitability, the balance sheet is expected to further leverage with debt: equity in FY18E expected at 1.9x. Currently, it realises bleak return ratios with the same not expected to rebound to double digit up till FY19E. This erodes our margin of safety on the stock though it is one of the key beneficiaries of “Make in India”, thereby executing an ambitious order from GE India. Going forward, over FY17-19E, we expect sales to grow at a CAGR of 21.6% to ₹ 423.0 crore in FY19E. On the PAT front, we expect Pitti to report PAT of ₹ 13.4 crore in FY19E. We have valued Pitti at ₹ 50 i.e. 10x P/E on FY19E EPS of ₹ 5.0/share with a **SELL** recommendation on the stock.

Exhibit 12: Valuation Matrix

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	309.0	-8.6	NM	NM	0.0	16.6	-8.9	1.4
FY17	283.0	-8.2	2.3	LP	27.4	10.4	5.6	6.5
FY18E	367.6	29.5	4.5	81.0	14.1	8.3	9.7	8.8
FY19E	420.7	8.5	5.0	14.3	12.9	6.9	9.6	9.6

Source: Company, ICICIdirect.com Research

LP: loss to Profit

NM: Not meaningful

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research; *I-direct coverage on Pitti Laminations was initiated on March 2015

Key events

Date/Year	Event
2008	Records capacity utilisation of 68% on its new expanded capacity of 25000 tonne (production volume at 17085 tonne)
2009	Promoters pledge 25.9% of their stake in the company
2012	Expands its capacity from 25000 tonne to 32000 tonne (production in FY12; 25022 tonne, capacity utilisation 78%)
2012	Buys assets of Andhra foundry unit
2014	Gets awarded a firm three year contract from GE group companies for supplying laminations worth ₹ 600 crore over CY15-17E
2015	Board of directors of company approve stock split of company's shares in the ratio of 1:2
2015	Sets April 17, 2015 as the record date of stock split
2015	Company reports muted Q2FY16 results on the back of sharp fall in metal scrap prices and write down of high cost inventory. Pitti reports EBITDA margins of 5.0% with PAT at negative ₹ 2.8 crore
2016	Dismal performance continues at Pitti with Q4FY16 PAT loss of ₹ 4.2 crore. For full year FY16, sales stood at ₹ 309 crore, EBITDA at ₹ 19.1 crore (EBITDA margins 6.1%) and PAT at negative ₹ 9.6 crore. Debt: Equity as of FY16 was at 1.5x
2017	Pitti Laminations returns to profitability with EBITDA margins in FY17 at 11.5% & PAT for full year at ₹ 6.3 crore. The company is in the midst of re-structuring its manufacturing facilities with incremental capex lined up to the tune of ~₹ 100 crore. Return ratios remain muted

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Position Change (m)
1	Pitti Electrical Equipment Pvt. Ltd.	31-Mar-17	25.9	7.0	0.0
2	Pitti (Sharad B)	31-Mar-17	15.8	4.3	0.0
3	Pitti (Akshay S)	31-Mar-17	11.7	3.2	0.0
4	Pitti (Madhuri S)	31-Mar-17	6.5	1.8	0.0
5	Arcstone Capital LLC	31-Mar-17	3.2	0.9	0.0
6	Barclays Wealth	31-Mar-17	1.7	0.4	0.0

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	60.0	60.0	60.0	60.0	60.0
FII	2.9	3.1	3.2	3.2	3.2
DII	0.0	0.0	0.0	0.0	0.0
Others	37.1	36.9	36.8	36.8	36.8

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys			Sells		
Investor name	Value (US \$ M)	Shares (M)	Investor name	Value (US \$ M)	Shares (M)
NULL			NULL		

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Net Sales	309.0	283.0	367.6	420.7	
Other Operating Income	2.6	2.9	2.6	2.3	
Total Operating Income	311.6	285.9	370.2	423.0	
Growth (%)	-8.6	-8.2	29.5	14.3	
Raw Material Expenses	203.2	176.2	229.5	260.1	
Employee Expenses	41.3	32.1	37.0	42.3	
Other Operating Expense	48.0	44.9	55.5	63.5	
Total Operating Expenditure	292.5	253.1	322.1	365.9	
EBITDA	19.1	32.8	48.1	57.1	
Growth (%)	-52.9	71.9	46.9	18.7	
Depreciation	15.4	13.7	16.4	21.8	
Interest	17.1	15.3	16.6	18.6	
Other Income	2.0	3.0	3.2	3.3	
PBT	-11.4	6.7	18.3	20.1	
Exceptional Item	0.0	-0.1	0.0	0.0	
Total Tax	-1.8	0.5	6.0	6.6	
PAT	-9.6	6.3	12.3	13.4	
Growth (%)	NM	NM	94.6	9.6	
EPS (₹)	-3.5	2.3	4.5	5.0	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Profit after Tax	-9.6	6.3	12.3	13.4	
Add: Depreciation	15.4	13.7	16.4	21.8	
(Inc)/dec in Current Assets	0.2	-48.8	-52.2	-30.7	
Inc/(dec) in CL and Provisions	-19.8	38.4	28.8	22.5	
Others	17.1	15.3	16.6	18.6	
CF from operating activities	3.3	25.0	21.8	45.5	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-6.9	-32.9	-62.0	-25.0	
Others	-1.9	-0.9	0.0	0.0	
CF from investing activities	-8.8	-33.8	-62.0	-25.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	26.2	16.9	55.0	-5.0	
Dividend paid & dividend tax	0.0	0.0	0.0	0.0	
Inc/(dec) in Share Cap	-0.7	-0.1	0.6	0.0	
Interest Paid	-17.1	-15.3	-16.6	-18.6	
CF from financing activities	8.4	1.5	39.0	-23.6	
Net Cash flow	2.9	-7.3	-1.2	-3.0	
Opening Cash	15.3	18.3	11.0	9.8	
Closing Cash	18.3	11.0	9.8	6.8	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Liabilities					
Equity Capital	13.5	13.5	13.5	13.5	
Reserve and Surplus	93.5	99.7	112.6	126.0	
Total Shareholders funds	107.0	113.2	126.1	139.5	
Total Debt	162.6	179.5	234.5	229.5	
Deferred Tax Liability	4.0	3.0	3.0	3.0	
Minority Interest / Others	0.0	0.0	0.0	0.0	
Total Liabilities	273.6	295.8	363.6	372.1	
Assets					
Gross Block	169.3	188.0	250.0	295.0	
Less: Acc Depreciation	87.1	100.9	117.3	139.1	
Net Block	82.2	87.1	132.7	155.9	
Capital WIP	5.8	20.0	20.0	0.0	
Total Fixed Assets	88.0	107.1	152.7	155.9	
Investments	16.4	16.4	16.4	16.4	
Inventory	117.6	145.0	181.3	201.7	
Debtors	112.0	102.8	125.9	144.1	
Loans and Advances	7.4	35.8	29.4	21.0	
Other Current Assets	2.4	4.5	3.7	4.2	
Cash	18.3	11.0	9.8	6.8	
Total Current Assets	257.6	299.0	350.1	377.8	
Current Liabilities	86.0	123.4	151.1	172.9	
Provisions	2.4	3.4	4.5	5.2	
Current Liabilities & Prov	88.4	126.8	155.6	178.1	
Net Current Assets	169.1	172.2	194.5	199.7	
Others Assets	0.0	0.0	0.0	0.0	
Application of Funds	273.6	295.8	363.6	372.1	

Source: Company, ICICIdirect.com Research

Key ratios		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Per share data (₹)					
EPS	-3.5	2.3	4.5	5.0	
Cash EPS	2.2	7.4	10.6	13.1	
BV	39.6	41.9	46.7	51.7	
DPS	0.0	0.0	0.0	0.0	
Cash Per Share (Incl Invest)	12.8	10.1	9.7	8.6	
Operating Ratios (%)					
EBITDA Margin	6.1	11.5	13.0	13.5	
PAT Margin	-3.1	2.2	3.3	3.2	
Inventory days	138.9	187.0	180.0	175.0	
Debtor days	132.3	132.5	125.0	125.0	
Creditor days	101.6	159.1	150.0	150.0	
Return Ratios (%)					
RoE	-8.9	5.6	9.7	9.6	
RoCE	1.4	6.5	8.8	9.6	
RoIC	1.5	7.2	9.5	9.7	
Valuation Ratios (x)					
P/E	NM	27.4	14.1	12.9	
EV / EBITDA	16.6	10.4	8.3	6.9	
EV / Net Sales	1.0	1.2	1.1	0.9	
Market Cap / Sales	0.6	0.6	0.5	0.4	
Price to Book Value	1.6	1.5	1.4	1.2	
Solvency Ratios					
Debt/EBITDA	8.5	5.5	4.9	4.0	
Debt / Equity	1.5	1.6	1.9	1.6	
Current Ratio	2.9	2.4	2.2	2.1	
Quick Ratio	1.6	1.2	1.1	2.1	

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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