

CMP: INR 244

Rating: BUY

Target Price: INR 436

Stock Info

BSE	513519
NSE	PITTIENG
Bloomberg	PITTIENG:IN
Reuters	PITE.NS
Sector	Capital Goods
Face Value (Rs)	5
Equity Capital (Rs cr)	16
Mkt Cap (Rs cr)	782
52w H/L (INR)	344 / 73.8
Avg Yearly Volume (in 000')	316.3

Shareholding Pattern %

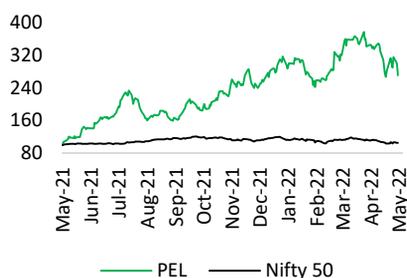
(As on Mar, 2022)

Promoters	59.28
DII	0.26
FII	0.02
Public & Others	40.43

Stock Performance (%)

	3m	6m	12m
PEL	4.8	8.0	170.3
NIFTY	-3.8	-8.6	4.7

PEL Vs Nifty



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Pitti Engineering Ltd (PEL) reported strong numbers, Q4FY22 revenue stood at INR 271cr (+59.3% YoY/+2.5% QoQ); beats our estimates of INR 236cr. Gross Profit stood at INR 72Cr (+22% YoY/-23.4% QoQ), Gross margins contracted by 808 bps to 26.4% vs 34.5% in Q4FY21. The margin contraction mainly because of raw material cost increase in terms of sales. The raw material cost in terms of sales stood at 73.6% vs 65.5% in Q4FY21. EBITDA stood at INR 35cr (+32.3% YoY/3.2% QoQ); beats our estimates of INR 30cr. EBITDA margin contracted by 266 bps to 13% vs 15.7% in Q4FY21. PAT stood at INR 20cr (-5.7% YoY/73.7% QoQ); below our estimates of INR 22cr. PAT Margin contracted by 508 bps to 7% vs 11.9% in Q4FY22.

Key Highlights

Capacity expansion is on the track: The company added 6,400 MT to sheet metal capacity in Q4FY22. The total sheet metal capacity stood at 46,000 tonnes per annum. The company is expected to reach 72,000 tonnes per annum by the end of FY23. The company added 40,400 machining hours in Q4FY22 and total machining hours stood at 4,03,200 hours. The company is expected to reach 6,48,000 machining hours going forward.

Focusing on domestic business leads to reduced working capital cycle: In Q4FY22 revenue stood at INR 271cr, the domestic and export mix stood at 70:30. In FY22 revenue stood at INR 954cr, the domestic and export mix stood at 69:31 vs 61:39 in FY21. The company is on track to increase domestic revenue to 80% and maintain exports revenue to 20%. The focus on domestic demand would reduce Day Sales Outstanding (DSO) resulting in working capital cycle reduction going forward.

Improvement in realization per tonne: in Q4FY22, Sales & EBITDA realization per tonne stood at INR 3,13,851 (+25.4% YoY/+1.2% QoQ) & INR 40,893 (+4.1% YoY/+1.9% QoQ) respectively. The increase in realization is driven by automations and machining capabilities. The assembled and value added components bring higher realization.

Order book and recent developments: The order book stood at INR 1,078cr as on 1st Apr, 2022. The company has developed various machine components for off highway application and locomotive application & other machined parts for locomotives which is expected to bring revenue potential of INR 95cr annually and these developments are expected to start from H2FY23.

Outlook & Valuation: PEL has prepone the capex plan to reach 72,000 tonnes per annum by end of FY23 and additional capex of INR 197cr for modernizing the plant, continuous improvement in realization, focused on domestic demand, order execution and getting new orders from customers. The company has integrated manufacturing plants with cutting edge technology, differentiated product offerings, marquee clients, diversified end industries with higher demand would lead the growth going forward. Based on DCF, we have a "BUY" rating with a Target Price of INR 436 per share; an upside of 78.9%.

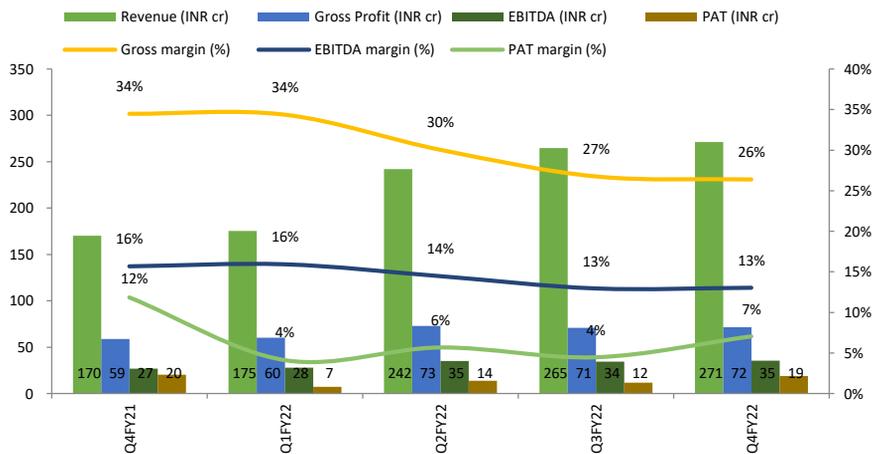
Q4FY22 Results

Income statement summary

Particular	Q4FY21	Q3FY22	Q4FY22	YoY (%)	QoQ (%)
Revenue	170	265	271	59.3%	2.5%
Net Raw Materials	112	194	200	79.0%	3.0%
Employee Cost	17	20	20	18.0%	3.0%
Other Expenses	15	17	16	8.0%	-5.4%
EBITDA	27	34	35	32.3%	3.2%
EBITDA Margin (%)	15.7%	12.9%	13.0%	-266 bps	9 bps
Depreciation	8	9	11	31.5%	18.1%
Interest expense	9	10	12	35.0%	24.5%
Other income	19.2	0.6	15.1	-21.4%	2312.8%
Profit before tax	28	16	27	-4.6%	73.2%
Taxes	7	4	7	-1.6%	71.7%
PAT	21	12	20	-5.7%	73.7%
Other Comprehensive income	(1.0)	0.3	(0.9)		
Net profit	20	12	19	-5.4%	61.8%
Net profit Margin (%)	11.9%	4.5%	7.0%	-482 bps	258 bps
EPS (INR)	6.6	3.6	6.2		

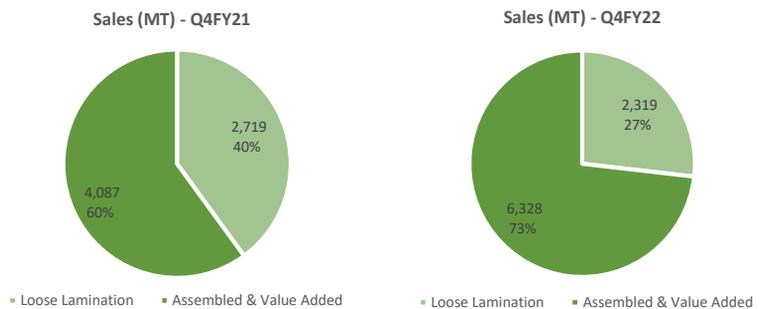
Source: Company Reports, Arihant Capital Research

Exhibit 1: Raw material cost pressurised gross margins



Source: Company Reports, Arihant Capital Research

Exhibit 2: Increase in Assembled & Value added components share brings higher realization

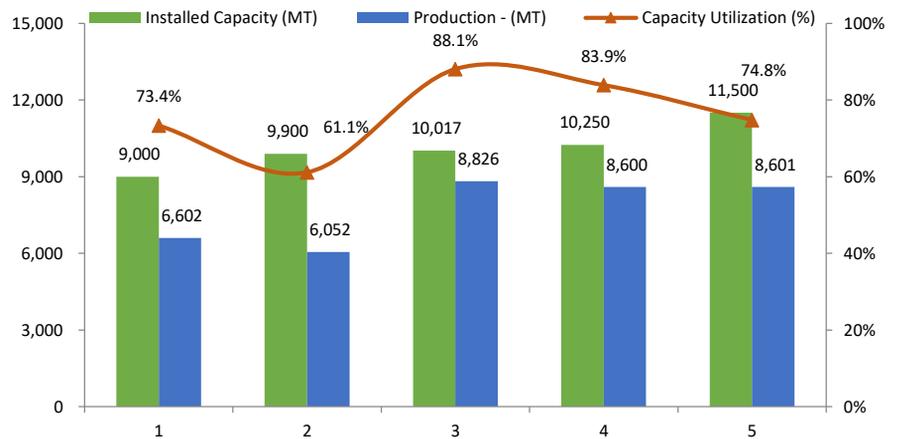


Source: Company Reports, Arihant Capital Research

Concall Highlights

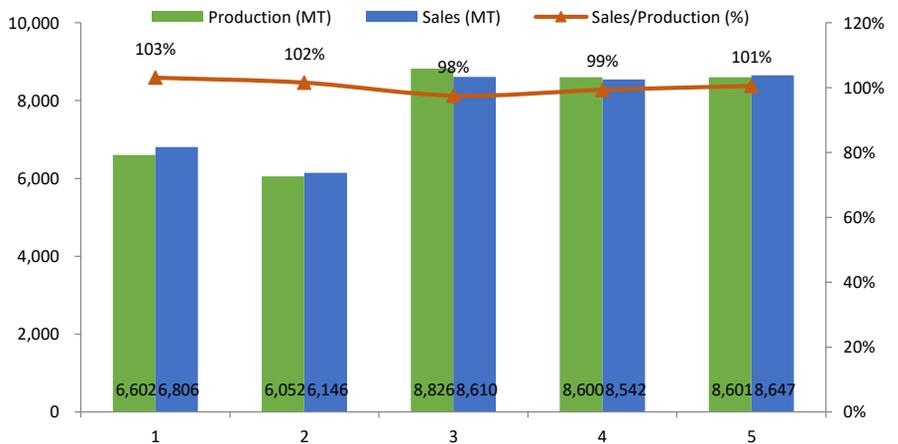
- The company has undergoing capex of INR 270cr; The remaining capex amount INR 137cr will be utilized for capacity expansion of 72,000 tonnes per annum in Aurangabad plant by end of FY23. After installation capacity of 72,000 tonnes per annum; the company is expected to reach a volume of ~58,000 tonnes (80% utilization) in a couple of years.
- In Q4FY22, the company added 6,400 MT sheet metal capacity which is fully available in Q1FY23.
- The company has additional capex of INR 197cr which is expected to start from FY24. Out of INR 197cr, INR 70cr for refurbishing, INR 55cr for increase in machining hours and remaining amount will be utilized for automation and replacement of existing machines.
- The market demand is around 5 lakh tonnes per annum. The company has less than 10% of share (46,000 tonnes) as of now. The 2nd player has 18,000 tonnes per annum and another couple of players has 8,000 to 10,000 tonnes per annum. 50% of the market is unorganized and OEM's are buying from organized players like Pitti Engineering.
- The order book stood at INR 1,078cr as on 1st Apr, 2022. Around 30% of the order book comes from railways and locomotives. Out of INR 1,078cr, INR 200cr are long term orders and remaining INR 888cr worth of orders is executable in FY23.
- Wind mill, special purpose motors, mining and oil & gas end user applications are expected to have good growth going forward. Consumer durable end user application is expected to have no growth or de-growth, however consumer durables has around 1% of total revenue.
- The company targeted a volume of 42,000 tonnes in FY23.
- The Aurangabad plant will become sheet metal center and Hyderabad plant will become machining center.
- The company is expected to become Net debt free by next couple of years.
- In FY22 sales volume stood at 31,945 tonnes, Aurangabad plant volume stood around 20,000 tonnes.
- The increase in EBITDA per tonne comes from automations and machining capabilities.
- The company focused on domestic orders and there was no drop in exports orders.
- The EBITDA per tonnes is expected to reach INR 42,000 by FY23.
- In FY22, the assembled and value added components share stood at around 60%.
- The Metro and passenger vehicle segment has good revenue visibility.

Exhibit 3: Maintaining healthy capacity utilization; In Q4FY22, capacity of 6,400 MT newly added which will be fully available in Q1FY23.



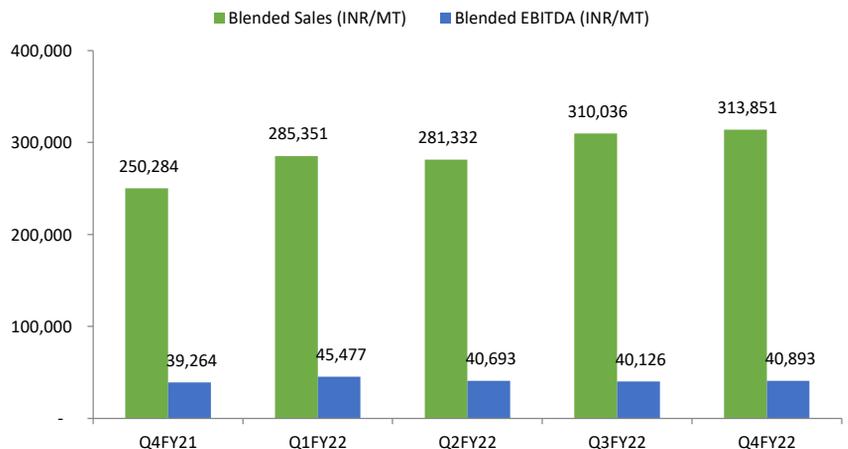
Source: Company Reports, Arihant Capital Research
Installed capacity - quarterly

Exhibit 4: Sales are in-line with production



Source: Company Reports, Arihant Capital Research

Exhibit 5: Improvement in realizations



Source: Company Reports, Arihant Capital Research

DCF Valuation

Valuation Assumptions		WACC	
g (World Economic Growth)	3%	We	82.7%
Rf	7%	Wd	17.3%
Rm	15%	Ke	18.1%
Beta	1.4	Kd	8.4%
CMP (INR)	244	WACC	16.4%

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	782
Total Debt	163
Total Capital	945

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)	99	132	160	187	209	243	277	310	340	366	386	398
Dep	48	54	60	66	71	76	90	101	111	120	126	130
Purchase of Assets	(135)	(68)	(68)	(68)	(62)	(63)	(77)	(86)	(95)	(102)	(107)	(111)
Changes in Working Capital	(27)	(61)	(34)	53	20	(7)	9	10	11	12	13	13
FCFF	(14)	57	118	238	237	250	300	335	368	396	417	431
Total Cash Flow	(14)	57	118	238	237	250	300	335	368	396	3,708	

Enterprise Value (EV)	1,527
Less: Debt	163
Add: Cash	35
Equity Value	1,399
Equity Value per share (INR)	436

% Returns	78.9%
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Rating	BUY
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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 (%)	436									
	15.5%	459	465	471	477	484	491	498	506	514
	15.8%	446	452	457	464	470	477	483	491	498
	16.0%	434	439	445	450	456	463	469	476	483
	16.3%	422	427	432	438	444	450	456	462	469
	16.5%	411	416	421	426	431	437	443	449	455
	16.8%	400	405	409	414	419	425	430	436	442
	17.0%	389	394	398	403	408	413	418	424	429
	17.3%	379	384	388	392	397	402	407	412	417
17.5%	370	374	378	382	386	391	396	401	406	

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	1,260	1,524	1,753
Net Raw Materials	345	335	678	892	1,070	1,218
Employee Cost	55	56	78	100	116	133
Other Expenses	48	49	65	84	104	123
EBITDA	78	78	133	184	235	279
EBITDA Margin (%)	14.8%	15.1%	13.9%	14.6%	15.4%	15.9%
Depreciation	(27)	(30)	(39)	(48)	(54)	(60)
Interest expense	(34)	(30)	(40)	(45)	(41)	(35)
Other income	4	20	16	30	37	42
Profit before tax	20	39	71	121	176	226
Taxes	(3)	(10)	(19)	(33)	(48)	(61)
PAT	17	29	52	89	129	165
PAT Margin (%)	3.3%	5.5%	5.4%	7.0%	8.4%	9.4%
Other Comprehensive income	(0)	(1)	0	-	-	-
Net profit	17	28	52	89	129	165
EPS (INR)	5	9	16	28	40	51

Source: Company Reports, Aриhant 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	357	485	650
Net worth	208	236	284	373	501	666
Provisions	34	74	12	24	29	34
Debt	241	263	401	376	336	276
Other non-current liabilities	11	10	9	25	30	35
Total Liabilities	494	583	706	798	897	1,011
Fixed assets	212	193	228	313	327	335
Capital Work In Progress	8	1	1	2	2	2
Other Intangible assets	11	18	14	14	14	14
Investments	42	95	18	38	46	53
Other non current assets	4	8	108	76	91	140
Net working capital	200	258	301	328	389	423
Inventories	127	157	272	306	337	384
Sundry debtors	139	172	204	190	230	240
Loans & Advances	0	0	-	0	0	0
Other current assets	36	48	75	86	104	120
Sundry creditors	(97)	(105)	(220)	(221)	(247)	(283)
Other current liabilities & Prov	(6)	(13)	(30)	(33)	(35)	(39)
Cash	15	9	35	25	25	41
Other Financial Assets	1	0	1	3	3	4
Total Assets	494	583	706	798	897	1,011

Source: Company Reports, Aриhant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	20	39	71	121	176	226
Depreciation	27	30	39	48	54	60
Tax paid	(3)	(10)	(19)	(33)	(48)	(61)
Working capital Δ	(4)	(58)	(43)	(27)	(61)	(34)
Operating cashflow	41	1	48	110	122	191
Capital expenditure	(23)	(4)	(73)	(135)	(68)	(68)
Free cash flow	18	(4)	(26)	(25)	54	123
Equity raised	20	(1)	0	-	-	-
Investments	(25)	(53)	77	(19)	(8)	(7)
Others	(2)	(9)	(97)	31	(16)	(49)
Debt financing/disposal	(32)	22	139	(25)	(40)	(60)
Other items	22	39	(63)	29	10	9
Net Δ in cash	1	(6)	26	(10)	(0)	15
Opening Cash Flow	14	15	9	35	25	25
Closing Cash Flow	15	9	35	25	25	41

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)						
Revenue growth	-15.6%	-1.3%	84.1%	32.1%	20.9%	15.0%
Op profit growth	-13.7%	0.4%	69.9%	38.7%	27.6%	18.7%
Profitability ratios (%)						
OPM	14.8%	15.1%	13.9%	14.6%	15.4%	15.9%
Net profit margin	3.3%	5.5%	5.4%	7.0%	8.4%	9.4%
RoCE	10.0%	9.6%	12.8%	16.5%	19.4%	20.7%
RoNW	9.0%	13.0%	20.0%	27.0%	29.5%	28.2%
RoA	3.5%	4.9%	7.3%	11.1%	14.4%	16.3%
Per share ratios (INR)						
EPS	5.3	8.7	16.2	27.7	40.2	51.4
Dividend per share	-	-	1.2	-	-	-
Cash EPS	13.9	18.4	28.3	42.7	57.0	70.0
Book value per share	64.8	73.6	88.6	116.2	156.4	207.8
Valuation ratios (x)						
P/E	46.5	27.9	15.1	8.8	6.1	4.7
P/CEPS	17.6	13.2	8.6	5.7	4.3	3.5
P/B	3.8	3.3	2.8	2.1	1.6	1.2
EV/EBITDA	12.4	12.1	8.5	6.0	4.5	3.5
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	57	50	49
Inventory days	120	154	116	118	110	108
Creditor days	82	84	72	75	66	66
WC Days	150	180	115	100	94	91
Leverage ratios (x)						
Interest coverage	1.5	1.6	2.4	3.0	4.4	6.2
Net debt / equity	1.1	1.1	1.3	0.9	0.6	0.4
Net debt / op. profit	2.9	3.3	2.8	1.9	1.3	0.8

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 6: Strong revenue growth in FY22

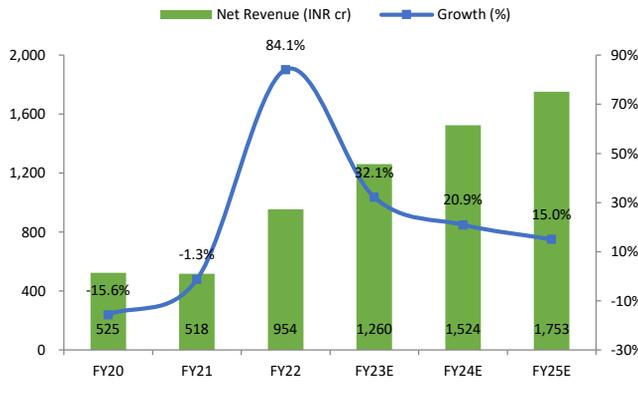


Exhibit 7: Input prices impacted gross margins

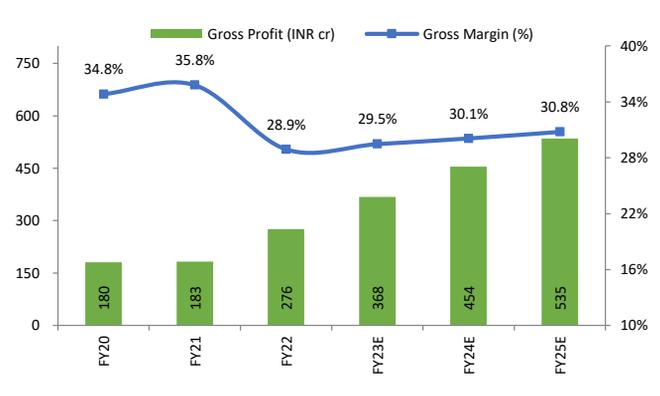


Exhibit 8: Growth in EBITDA & PAT levels

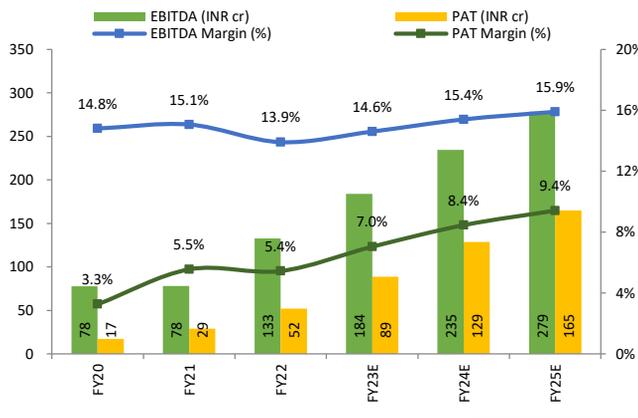


Exhibit 9: Return ratios to be improve

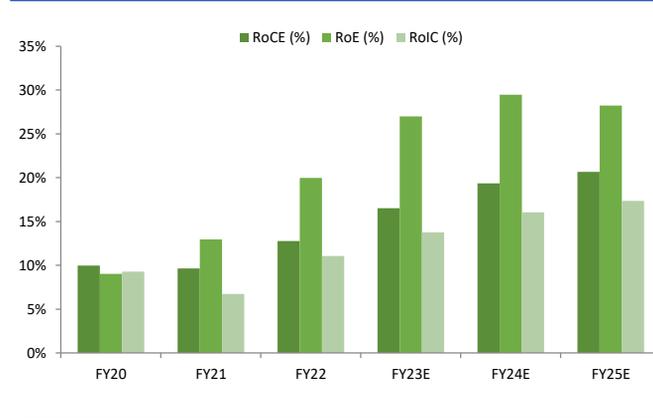


Exhibit 10: Working capital days to be improve

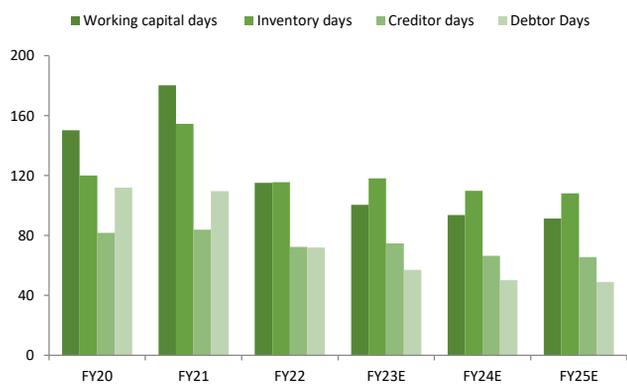
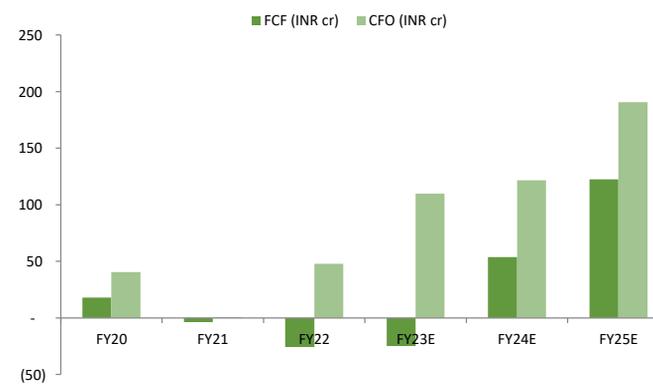


Exhibit 11: Cash flows to be improve



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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