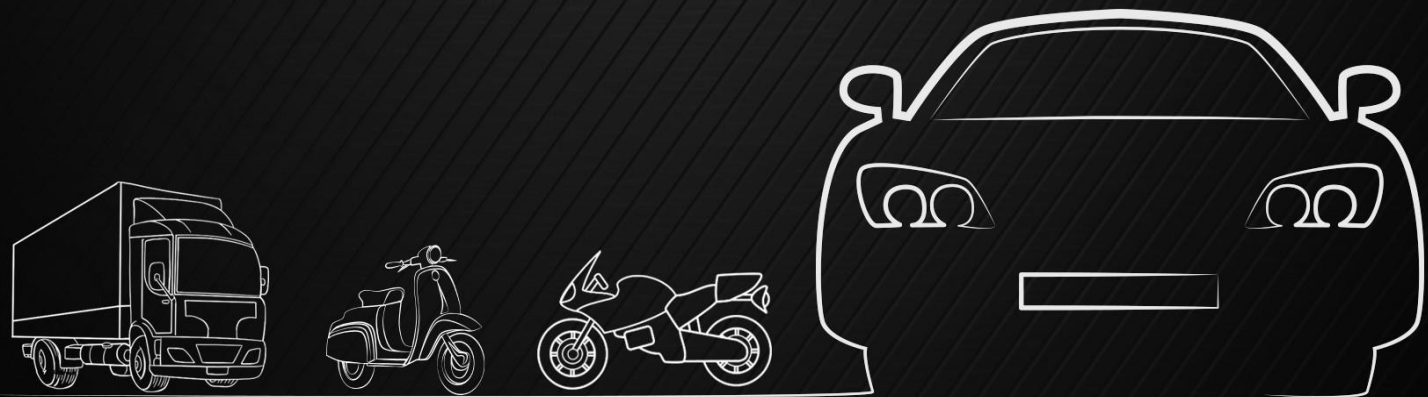


# Pitti Engineering Ltd.



**Pitti Engineering Ltd.**
**Strengthening market position and profitability through strategic acquisition and synergistic growth initiatives**

 CMP  
INR 722

 Target  
INR 1,083

 Potential Upside  
50.0%

 Market Cap (INR Mn)  
INR 23,104

 Recommendation  
BUY

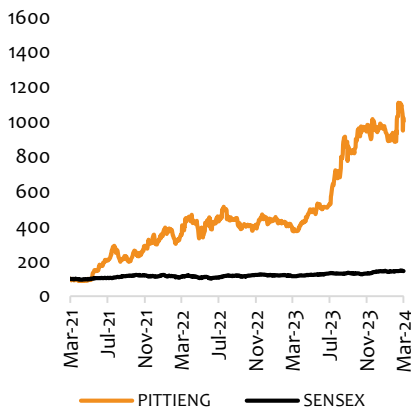
 Sector  
Engineering

**Highlights**

- Pitti Engineering Limited (PEL) has forged a contractual arrangement with Bagadia Chaitra Industries Private Limited (BCIPL), situated in Tumkur, Karnataka.
- BCIPL specializes in the production of electrical laminations and aluminum die-cast rotors, catering to a diverse clientele in industries such as motors, alternators, pumps, appliances, and electric vehicles, with a primary focus on the South Indian market.
- The proposed transaction carries an Enterprise value of INR 1,249 Mn. The acquisition cost will be determined through adjustments to this Enterprise value, accounting for net debt and variations in working capital.
- BCIPL achieved revenues of INR 2,641 Mn for FY23, with an EBITDA of INR 141 Mn and PBT of INR 62 Mn.

**MARKET DATA**

|                   |             |
|-------------------|-------------|
| Shares outs (Mn)  | 32          |
| Mkt Cap (INR Mn)  | 23,104      |
| 52 Wk H/L (INR)   | 818 / 257   |
| Volume Avg (3m K) | 148.3       |
| Face Value (INR)  | 5.0         |
| Bloomberg Code    | PITTIENG IN |

**SHARE PRICE PERFORMANCE**

**MARKET INFO**

|        |        |
|--------|--------|
| SENSEX | 72,748 |
| NIFTY  | 22,056 |

**SHARE HOLDING PATTERN (%)**

| Particulars | Dec 23 | Sept 23 | Jun 23 |
|-------------|--------|---------|--------|
| Promoters   | 59.3   | 59.3    | 59.3   |
| FIIIs       | 0.2    | 0.1     | 0.2    |
| DIIIs       | 6.6    | 5.5     | 6.2    |
| Others      | 33.9   | 35.1    | 34.3   |
| Total       | 100    | 100     | 100    |

**KEY FINANCIALS**

| INR Mn         | FY21  | FY22  | FY23   | FY24E  | FY25E  | FY26E  |
|----------------|-------|-------|--------|--------|--------|--------|
| Revenue        | 5,182 | 9,538 | 11,002 | 11,893 | 16,804 | 19,209 |
| EBITDA         | 780   | 1,326 | 1,514  | 1,724  | 2,518  | 2,874  |
| Adj. PAT       | 288   | 519   | 588    | 742    | 1,096  | 1,578  |
| Adj. EPS (INR) | 9.0   | 16.2  | 18.4   | 23.1   | 34.2   | 49.2   |
| EBITDA Margin  | 15.1% | 13.9% | 13.8%  | 14.5%  | 15.0%  | 15.0%  |
| Adj. NPM       | 5.5%  | 5.4%  | 5.3%   | 6.2%   | 6.5%   | 8.2%   |

Source: Company, KRChoksey Research

**PEL expands South Indian footprint with BCIPL acquisition and increase market share**

PEL has finalized an agreement with BCIPL to enhance its market footprint in South India. Through this acquisition, PEL is targeting an increase in its capacity to approximately 90,000 tonnes. The combined market size for small and large motors stands at approximately 700,000 tonnes RME. With this strategic move, PEL anticipates securing a market share of approximately 12.0% to 13.0% in the broader Indian market. Specifically, the small motor segment accounts for approximately 5,000 to 6,000 tonnes per market, apart from home appliances, pumps, and alternators.

**Synergistic merger and acquisition enhance EBITDA expectations**

BCIPL specializes in electrical laminations and aluminum die-cast rotors, serving industries like motors, alternators, pumps, appliances, and electric vehicles, primarily in South India. Its Tumkur facility has a capacity of 18,000 tonnes annually, capable of contributing INR 3,000 Mn to the topline at full capacity. The merger with Pitti Castings and acquisition of Bagadia is expected to add INR 200 Mn and INR 300 Mn, respectively, to EBITDA, driven by synergy benefits. Improved EBITDA per tonne and PEL will further expand the overall EBITDA margin to reach a target of 17.0% on a consolidated basis by FY25E.

**Driving efficiency and unlocking synergies for financial growth**

The acquisition offers PEL numerous financial advantages, including expanded presence in South India, bolstered asset base, and increased production capacity, facilitating entry into new sectors and customer acquisition. Synergies in sales and marketing are anticipated to drive cross-selling opportunities, enhancing market penetration and supporting PEL's growth strategy. Operational efficiencies from the acquisition will contribute to overall financial performance and long-term sustainability.

Consolidating operations between Aurangabad's facility and Bangalore's facility is projected to generate significant logistical cost savings, estimated at INR 300 Mn, through a reduction of approximately INR 3,000 per tonne in transportation expenses for 10,000 tonnes. Furthermore, utilizing by-products from Pitti as raw material at Bagadia Chaitra facility is expected to enhance cost efficiencies, with savings ranging from INR 7,000 to INR 8,000 per tonne, resulting in an additional savings of approximately INR 100 Mn. We have incorporated higher revenue, margins and leverage from the deal into our model. We prefer to be conservative in our margin forecasts versus management guidance, given BCIPL's relatively weaker margin profile compared to PEL. However, the deal should still result in EPS accretion for FY26E and beyond. While we are positive on the Company's focus on reducing debt, we reckon that the need to maintain liquidity may lead to the timeline for achieving net debt zero position to stretch slightly beyond FY26E.

20.4%

Revenue CAGR between FY23 and FY26E

39.0%

Adj. PAT CAGR between FY23 and FY26E

## Pitti Engineering Ltd.

### Key highlights of post-result conference call

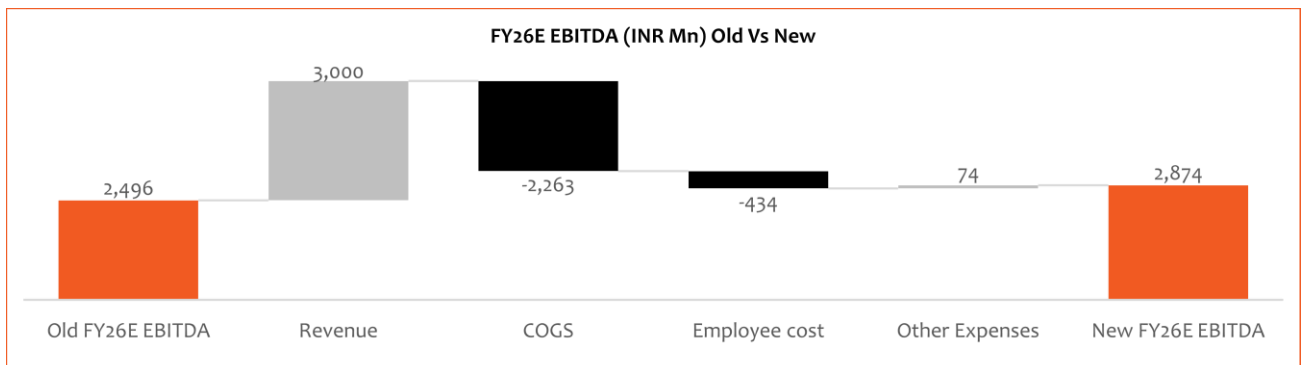
- For FY24E sales estimate for BCIPL is 14,000 tonnes, with planned production realignment, transferring 4,000 tonnes from Bangalore to Aurangabad and 6,000 tonnes from Aurangabad to Bangalore, aimed at lowering logistical costs.
- Raw material costs constitute about 80.0% of total costs in the lamination industry, and the addition of smaller-size products from the acquisition is expected to enhance raw material utilization and improve margins for PEL.
- BCIPL experienced lower EBITDA margins primarily due to higher raw material costs, while historically it achieved around 6.5% -7.0% margins, margin improvements are expected as raw material prices normalize.
- Currently BCIPL reported EBITDA margins of 6.0% in H1FY24 with ongoing improvements expected as raw material prices decline.
- BCIPL has an installed capacity of 18,000 MTPA which can contribute INR 3,000 Mn to topline.
- BCIPL specializes in smaller laminations, complementing Pitti's larger-scale production, and contributing to improved material utilization.
- BCIPL is expected to generate INR 3,000 Mn in revenue and around 10.0% EBITDA margin which will result in INR 300 Mn
- Shareholder meeting is scheduled on 22<sup>nd</sup> March 2024 with regards to approving Pitti Casting merger, which is anticipated addition of approximately INR 200 Mn EBITDA for FY24E.
- Bagadia derives 35.0% to 40.0% of its total revenue solely from the Pump industry, facilitating Pitti's strategic entry into this segment.
- As a result of the acquisition, the maximum debt is projected to reach approximately INR 4,500 Mn, with no further capital expenditure initiatives anticipated until the middle of FY26E. Expect to substantially reduce INR 4,500 Mn debt over two years with contributions from Pitti Casting merger, Bagadia Chaitra industries, and organic business growth generating INR 2,000 Mn annual cash flow.
- BCIPL generates approximately 30.0% to 40.0% of its revenue from the pump industry, 40.0% from alternators, and the remaining 20.0% from general home appliances.
- BCIPL had a debt of approx. INR 290 Mn and cash and cash equivalents of around INR 80 Mn as of FY23.
- PEL anticipates synergies predominantly driven by enhanced utilization of raw material coils, leading to improved material cost efficiencies, as well as substantial savings in logistics costs through streamlined production and distribution optimization between its Bangalore and Aurangabad facilities.
- Bagadia primarily caters to clients in the alternator, motor, and pump industries, with major clients including Tecmo Pumps and Nidec. There is a degree of client concentration, with the top three clients accounting for 57.0% to 70.0% of revenues in FY21 and H1FY24.
- Combining both small and large motor acquisitions, the Company anticipate reaching approximately 90,000 tonnes to 200,000 tonnes of RME (Raw Material Equivalent) consumption. This translates to capturing approximately 12.0% to 13.0% of the overall Indian market in terms of volume. While specific market size in value terms for small motors is challenging to determine due to diversified applications beyond motors, the market size for related industries such as pumps, alternators, and home appliances is estimated to be around INR 50,000 to 60,000 Mn.
- BCIPL's export revenue constitutes a minor fraction, approximately 8.0% to 10.0% of its total revenue, primarily directed towards the European market.
- Bagadia's existing order book stands within the range of INR 1,000 Mn to INR 1,200 Mn, offering a robust basis for future operational stability and revenue generation.
- Post-merger with Pitti Castings, the total outstanding shares are estimated to be approximately 3,420 Mn shares, with approximately 2.2 Mn additional shares being issued.
- Comparing Pitti and Bagadia's working capital cycles shows significant differences, with Pitti having longer data and inventory days. This is due to factors like its export business, diverse customer base, and product complexity. Future trends in working capital will be influenced by business mix changes and strategic moves, potentially affecting debtors and inventory days. The acquisition is expected to enhance inventory management by optimizing raw material use and streamlining inventory flow, but precise impact estimates are premature.
- The acquisition was financed through debt, considering existing cash reserves and net debt levels. Post-acquisition, the Company aims to deleverage, targeting a net debt zero position by FY26E, aligning cash reserves with debt levels.
- The consolidation of operations between Aurangabad and Bangalore is expected to yield significant cost savings, with an estimated savings of approximately INR 3,000 per tonne on transportation costs between the two locations. This translates to a gross savings of INR 300 Mn considering the relocation of approximately 10,000 tonnes

### Valuation and view

The acquisition allows Pitti Engineering to expand its presence in South India, increase its production capacity, enter new sectors, and gain new customers. This move is seen as a step towards enhancing operational strength resulting in improved EBITDA margins and broadening market penetration for Pitti Engineering by achieving a 12.0-13.0% market share. We believe the acquisition will bring in new customers, create synergies in sales and marketing, and enable Pitti Engineering to sell its existing product portfolio to these new customers, thereby enhancing market penetration and revenue streams. We expect the Revenues/ EBITDA/ PAT to grow at a CAGR of 20.4%/ 23.8%/ 39.0%, respectively, over FY23-26E led by the healthy growth in the organic business driven by its order book and also supported by the inorganic synergies. **PEL is currently trading at 31.2x/21.1x its FY24E/FY25E EPS. We maintain our P/E multiple of 22.0x to FY26E EPS of 49.2 Rs. (46.7Rs. previously), as we like the prospects of the acquired business and the synergies that can drive the EBITDA margins on a consolidated basis. We assign a target price of INR 1,083 per share (INR 1,027 per share previously), with a 50.0% upside from current levels, to reflect improved scale and the Company's plans to reduce debt. Accordingly, we maintain a BUY rating on the shares of Pitti Engineering.**

### Old vs New estimates (FY26E)

| Particulars (INR Mn) | Old FY26E | New FY26E | % Change | Comments   |
|----------------------|-----------|-----------|----------|--|
| Revenue              | 16,209    | 19,209    | 18.5%    | Incremental revenue from the BCIPL acquisition.  |
| EBITDA               | 2,496     | 2,874     | 15.1%    | Lower logistics costs and improved raw material utilization following the BCIPL acquisition. |
| EPS (INR)            | 46.7      | 49.2      | 5.4%     | EBITDA improvement partially offset by higher interest costs and depreciation.               |



Source: Company, KRChoksey Research

## Pitti Engineering Ltd.

### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

| Particulars (INR Mn)        | FY21         | FY22         | FY23          | FY24E         | FY25E         | FY26E         |
|-----------------------------|--------------|--------------|---------------|---------------|---------------|---------------|
| <b>Revenues</b>             | <b>5,182</b> | <b>9,538</b> | <b>11,002</b> | <b>11,893</b> | <b>16,804</b> | <b>19,209</b> |
| COGS                        | 3,353        | 6,781        | 7,823         | 8,087         | 11,494        | 13,139        |
| <b>Gross profit</b>         | <b>1,829</b> | <b>2,757</b> | <b>3,179</b>  | <b>3,806</b>  | <b>5,310</b>  | <b>6,070</b>  |
| Employee cost               | 561          | 785          | 866           | 1,035         | 1,613         | 1,844         |
| Other expenses              | 488          | 646          | 799           | 1,047         | 1,179         | 1,352         |
| <b>EBITDA</b>               | <b>780</b>   | <b>1,326</b> | <b>1,514</b>  | <b>1,724</b>  | <b>2,518</b>  | <b>2,874</b>  |
| Depreciation & amortization | 304          | 389          | 447           | 518           | 727           | 763           |
| <b>EBIT</b>                 | <b>477</b>   | <b>937</b>   | <b>1,067</b>  | <b>1,207</b>  | <b>1,791</b>  | <b>2,111</b>  |
| Interest expense            | 296          | 396          | 447           | 401           | 617           | 285           |
| Other Income                | 205          | 164          | 178           | 190           | 269           | 307           |
| <b>PBT</b>                  | <b>385</b>   | <b>706</b>   | <b>799</b>    | <b>996</b>    | <b>1,443</b>  | <b>2,133</b>  |
| Tax                         | 98           | 187          | 211           | 254           | 346           | 555           |
| <b>PAT</b>                  | <b>288</b>   | <b>519</b>   | <b>588</b>    | <b>742</b>    | <b>1,096</b>  | <b>1,578</b>  |
| <b>EPS (INR)</b>            | <b>9.0</b>   | <b>16.2</b>  | <b>18.4</b>   | <b>23.1</b>   | <b>34.2</b>   | <b>49.2</b>   |

Source: Company, KRChoksey Research

#### Exhibit 2: Cash Flow Statement

| Particulars (INR Mn)            | FY21 | FY22 | FY23   | FY24E | FY25E | FY26E  |
|---------------------------------|------|------|--------|-------|-------|--------|
| Cash Flow From Operations       | 317  | 879  | 2,222  | 1,499 | 1,507 | 2,100  |
| Cash Flow from Investing        | -664 | -928 | -1,035 | -769  | -531  | -43    |
| Cash Flow from Financing        | 284  | 122  | -866   | -796  | 1,143 | -4,406 |
| Net Inc/Dec in cash equivalents | -63  | 73   | 321    | -66   | 2,119 | -2,348 |
| Opening Cash Balance            | 67   | 4    | 77     | 397   | 331   | 2,449  |
| Closing Cash Balance            | 4    | 77   | 398    | 331   | 2,449 | 101    |

Source: Company, KRChoksey Research

#### Exhibit 3: Key Ratios

| Particulars (INR Mn)  | FY21  | FY22  | FY23  | FY24E | FY25E | FY26E |
|-----------------------|-------|-------|-------|-------|-------|-------|
| EBITDA Margin (%)     | 15.1% | 13.9% | 13.8% | 14.5% | 15.0% | 15.0% |
| Net Profit Margin (%) | 5.5%  | 5.4%  | 5.3%  | 6.2%  | 6.5%  | 8.2%  |
| RoE (%)               | 12.2% | 18.3% | 17.6% | 18.6% | 22.2% | 25.0% |
| RoCE (%)              | 16.6% | 23.8% | 23.4% | 23.2% | 26.1% | 33.4% |
| Debt to Equity (x)    | 0.2x  | 0.4x  | 0.4x  | 0.3x  | 0.4x  | 0.0x  |

Source: Company, KRChoksey Research

## Pitti Engineering Ltd.

### Exhibit 4: Balance Sheet

| Particulars (INRmn)                  | FY21         | FY22         | FY23         | FY24E         | FY25E         | FY26E         |
|--------------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|
| <b>Equity</b>                        |              |              |              |               |               |               |
| Equity Capital                       | 160          | 160          | 160          | 160           | 160           | 160           |
| Other Equity                         | 2,198        | 2,679        | 3,181        | 3,828         | 4,784         | 6,161         |
| <b>Total Equity</b>                  | <b>2,358</b> | <b>2,840</b> | <b>3,341</b> | <b>3,988</b>  | <b>4,944</b>  | <b>6,321</b>  |
| <b>Non-Current Liabilities</b>       |              |              |              |               |               |               |
| Borrowings                           | 506          | 1,102        | 1,219        | 1,219         | 1,919         | 0             |
| Lease Liabilities                    | 517          | 527          | 540          | 540           | 540           | 540           |
| Provisions                           | 69           | 78           | 82           | 88            | 125           | 143           |
| Deferred Tax Liabilities             | 101          | 91           | 85           | 85            | 85            | 85            |
| Other non-current liabilities        | 39           | 0            | 0            | 0             | 0             | 0             |
| <b>Total Non-Current Liabilities</b> | <b>1,230</b> | <b>1,799</b> | <b>1,926</b> | <b>1,933</b>  | <b>2,669</b>  | <b>768</b>    |
| <b>Current Liabilities</b>           |              |              |              |               |               |               |
| Borrowings                           | 1,848        | 2,142        | 1,680        | 1,380         | 2,580         | 580           |
| Trade Payables                       | 1,053        | 2,202        | 2,513        | 2,717         | 3,839         | 4,388         |
| Lease Liabilities                    | 123          | 154          | 125          | 125           | 125           | 125           |
| Other Financial Liabilities          | 236          | 85           | 83           | 90            | 127           | 145           |
| Other Current Liabilities            | 33           | 148          | 45           | 49            | 69            | 79            |
| Provisions                           | 32           | 38           | 43           | 46            | 65            | 74            |
| Current Tax Liability                | 100          | 156          | 24           | 26            | 37            | 42            |
| <b>Total Current Liabilities</b>     | <b>3,424</b> | <b>4,926</b> | <b>4,513</b> | <b>4,433</b>  | <b>6,842</b>  | <b>5,433</b>  |
| <b>Total Liabilities</b>             | <b>7,012</b> | <b>9,564</b> | <b>9,780</b> | <b>10,353</b> | <b>14,455</b> | <b>12,523</b> |
| <b>Non-Current Assets</b>            |              |              |              |               |               |               |
| Property Plants and Equipments       | 1,928        | 2,279        | 2,789        | 3,359         | 3,599         | 3,353         |
| CWIP                                 | 11           | 6            | 241          | 200           | 150           | 100           |
| Right of use of Assets               | 741          | 828          | 743          | 655           | 538           | 420           |
| Intangible Asset                     | 181          | 138          | 92           | 92            | 92            | 92            |
| Investment in JV                     | 0            | 20           | 19           | 19            | 19            | 19            |
| Investments                          | 164          | 165          | 152          | 152           | 152           | 152           |
| Other Financial Assets               | 49           | 19           | 85           | 92            | 130           | 149           |
| Loans                                | 2            | 0            | 0            | 0             | 0             | 0             |
| Other non-current assets             | 77           | 232          | 237          | 257           | 363           | 415           |
| <b>Total Non-Current Assets</b>      | <b>3,153</b> | <b>3,687</b> | <b>4,358</b> | <b>4,826</b>  | <b>5,043</b>  | <b>4,700</b>  |
| <b>Current Assets</b>                |              |              |              |               |               |               |
| Inventories                          | 1,572        | 2,723        | 2,393        | 2,476         | 3,453         | 3,947         |
| Trade Receivables                    | 1,718        | 2,043        | 1,814        | 1,857         | 2,486         | 2,737         |
| Cash and Cash Equivalents            | 89           | 76           | 397          | 331           | 2,449         | 101           |
| Bank Balances other than Cash        | 0            | 274          | 255          | 255           | 255           | 255           |
| Other Financial Assets               | 4            | 9            | 9            | 9             | 13            | 15            |
| Other Current Assets                 | 450          | 753          | 554          | 599           | 756           | 768           |
| <b>Total Current Assets</b>          | <b>3,833</b> | <b>5,877</b> | <b>5,422</b> | <b>5,527</b>  | <b>9,412</b>  | <b>7,823</b>  |
| Assets held for Sale                 | 26           | 0            | 0            | 0             | 0             | 0             |
| <b>Total Assets</b>                  | <b>7,012</b> | <b>9,564</b> | <b>9,780</b> | <b>10,353</b> | <b>14,455</b> | <b>12,523</b> |

Source: Company, KRChoksey Research

## Pitti Engineering Ltd.

| Pitti Engineering Ltd |           |          |                |
|-----------------------|-----------|----------|----------------|
| Date                  | CMP (INR) | TP (INR) | Recommendation |
| 18-Mar-24             | 722       | 1,083    | BUY            |
| 27-Feb-24             | 798       | 1,027    | BUY            |
| 15-Nov-23             | 679       | 985      | BUY            |
| 6-Nov-23              | 696       | 838      | BUY            |
| 26-Aug-23             | 565       | 754      | BUY            |
| 31-Jul-23             | 460       | 754      | BUY            |

| Rating Legend (Expected over a 12-month period) |                |
|---|----------------|
| Our Rating                                      | Upside         |
| Buy   | More than 15%  |
| Accumulate                                      | 5% – 15%       |
| Hold  | 0 – 5%         |
| Reduce  | -5% – 0        |
| Sell  | Less than – 5% |

### ANALYST CERTIFICATION:

I, Unnati Jadhav (MMS, Finance ), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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