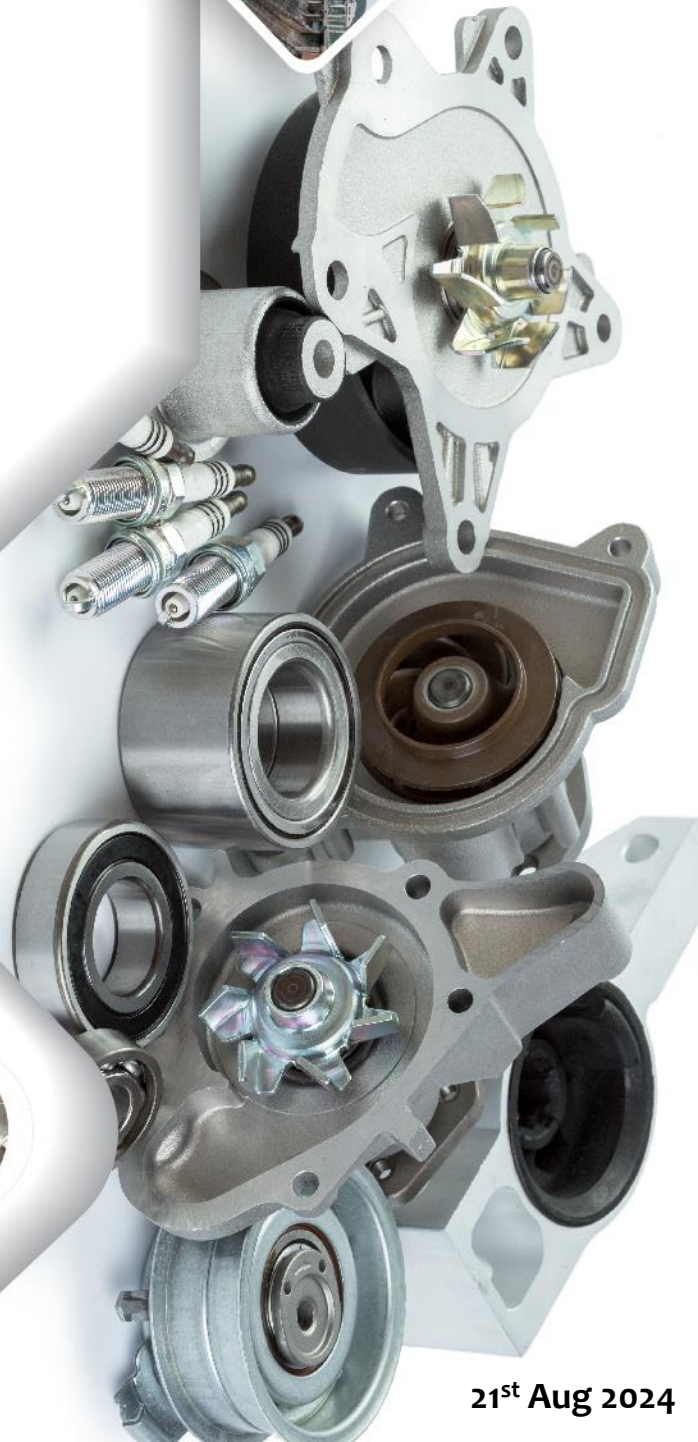


# Q1FY25 Pitti Engineering Ltd



## Pitti Engineering Ltd

Increased capacity to drive volume and revenue

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,347	INR 1,552	15.2%	INR 47,805	BUY	Engineering

### Result Highlights

- Pitti Engineering Ltd (PEL) reported robust top-line and bottom-line growth on YoY basis.
- Revenue increased by 32.1% YoY (+16.7% QoQ) to INR 3,828 Mn, driven by strong volume growth.
- EBITDA grew by 32.8% YoY (+15.9% QoQ) to INR 564 Mn, on the back of robust revenue growth leading to an EBITDA margin of 14.7% (+8bps YoY/ -11bps QoQ).
- Adjusted PAT grew 47.1% YoY (-49.1% QoQ) to INR 205 Mn. The QoQ decline in Adj. PAT is due to the cyclical nature of other income wherein most non-operating income is realized in Q4 of any fiscal year.
- We increase our FY26E P/E multiple to 25.0x (earlier 24.0x), on the back of a) higher capacity addition from acquired entities, b) increased capacity utilization, c) robust demand, and d) stronger growth opportunities. We increase our FY26E EPS to INR 62.1 (earlier: INR 57.5) on the back of strong volume growth anticipated in coming quarters. Accordingly, we raise our target price to INR 1,552 (earlier: INR 1,379) and retain our “BUY” rating on the shares of Pitti Engineering Ltd.**

### MARKET DATA

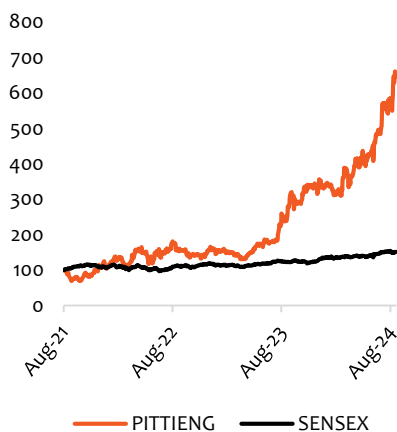
Shares outs (Mn)	35
Mkt Cap (INR Mn)	47,805
52 Wk H/L (INR)	1380/493
Volume Avg (3m K)	128
Face Value (INR)	5.0
Bloomberg Code	PITTIENG IN

### KEY FINANCIALS

INR Millions	Q1FY25	Q4FY24	Q1FY24	QoQ	YoY
Revenue	3,828	3,279	2,898	16.7%	32.1%
EBITDA	564	486	424	15.9%	32.8%
Adjusted PAT	205	404	140	-49.1%	47.1%
OPM (%)	14.7%	14.8%	14.6%	-11bps	8bps
Adjusted PAT Margin (%)	5.4%	12.3%	4.8%	-694bps	55bps

Source: Company, KRChoksey Research

### SHARE PRICE PERFORMANCE



### MARKET INFO

SENSEX	80,803
NIFTY	24,699

### Capacity addition and higher utilization led to volume growth

- In Q1FY25, the Company's revenue increased due to a strong jump in volume; driven by an increase in capacity to 74,000 MT (vs. 50,200 MT YoY) and improved capacity utilization.
- The increase in capacity addition resulted from PEL's recent acquisition. In March 2024, PEL purchased Bagadia Chaitra Industries Pvt Ltd (BCIPL) for INR 1,249 Mn. BCIPL has a manufacturing capacity of 18,000 MT.
- The Company recorded its highest-ever quarterly sales volume at 14,992 MT, marking a 50.6% jump YoY.
- Capacity utilization increased for PEL (standalone) to 84.1% (vs. 77.8% YoY) and for BCIPL, the capacity utilization increased to 89.2% (vs. 84.3% YoY).
- Blended EBITDA/Ton for PEL (standalone) increased to INR 43,785 (vs. INR 42,607 YoY), however consolidated EBITDA/Ton declined to INR 37,588 (vs. INR 42,606 YoY), primarily due to a decline in EBITDA/Ton in BCIPL to INR 7,204 (-36.6% YoY)

### New Acquisition to drive growth further

- PEL acquired 100.0% share capital of Dakshin Foundry Private Limited (DFPL) at an equity value of INR 1531.2 Mn.
- Dakshin Foundry produces high-quality Gray and Ductile Iron castings and offers machining and pattern-making services, with a capacity of 4,200 MT.
- DFPL also provides value-added services such as pattern making, painting, heat and surface treatments, and machining.
- Acquisition of BCIPL and DFPL will provide an opportunity for PEL to expand its current capacity, enhance its geographical presence, ability to cater to new clients and provide scope to enter into new sectors.

### SHARE HOLDING PATTERN (%)

Particulars (%)	Jun-24	Mar-24	Dec-23
Promoters	59.3	59.3	59.3
FIIIs	0.8	0.5	0.2
DIIIs	5.9	5.9	6.6
Others	34.0	34.3	33.9
Total	100	100	100

\*Based on previous closing

35.9%

Revenue CAGR between FY24 and FY26E

56.2%

Adj. PAT CAGR between FY24 and FY26E

## Pitti Engineering Ltd

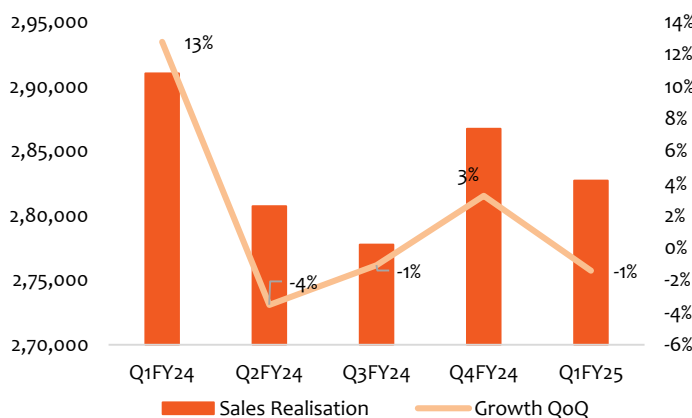
### Key Concall Highlights:

- The Company is optimistic about **exceeding the annual target of 48,000 tons on a standalone basis and 63,000 tons on a consolidated basis.**
- The management has highlighted a **slight reduction in margins in FY25E.**
- The decline in EBITDA/Ton for BCIPL is due to a change in inventory valuation and also due to one-time expenses.
- After the acquisition, the Company adopted a conservative inventory accounting method at BCIPL, affecting valuations by approximately INR 20 Mn. It also staggers raw material prices in lamination by one month to prevent losses from market fluctuations, letting inventories be used at the previous rate.
- The Company sets sell prices in customer contracts from February to April, while raw material prices are fixed for January to March, creating a one-month stagger.
- This strategy lets the Company use inventories at previous rates and avoid losses from market price fluctuations.
- The Company **anticipates an increase in railway orders in the near term.** Currently, the order book for railways stands at approximately INR 10,000 Mn.
- PEL finalized the acquisition of Bagadia Chaitra Industries Private Limited (BCIPL) on May 6, 2024, **adding a pump segment to its portfolio** with Texmo as a notable customer.
- PEL is **now awaiting NCLT approval for its merger with Pitti Castings**, anticipated to be completed within the quarter.
- Having already executed two acquisitions this year, PEL is not pursuing additional inorganic opportunities but is concentrating on integrating and consolidating these acquisitions.
- **M&A strategies will be reviewed for FY26E (next financial year)**, following the integration of the current acquisitions.
- During Q1FY25, **PEL announced a QIP and successfully raised up to INR 3,600.0 Mn.**
- The Company also announced a 100.0% acquisition of Dakshin Foundry Private Limited at an equity valuation of INR 1531 Mn.
- The acquisition cost includes the business value and working capital of Dakshin Foundry as of June 30, 2024. The transaction was financed using INR 766.3 Mn from the general corporate purpose portion of the QIP funds, with the remaining INR 764.9 Mn covered by the Company's existing cash and bank balances.

### Valuation:

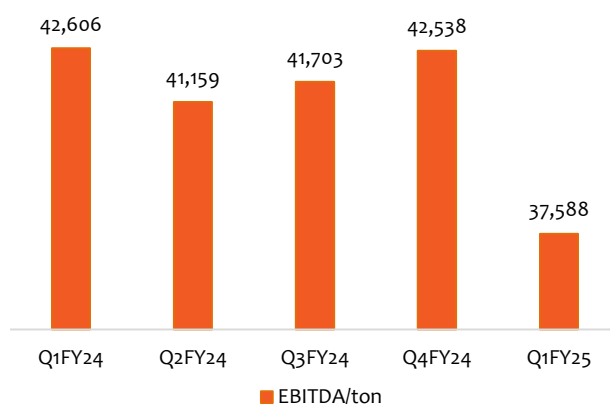
Pitti Engineering Ltd posted strong revenue growth in Q1FY25 led by robust volume growth. PEL's acquisition of BCIPL increased the Company's current capacity to 74,000 MT. PEL also acquired DFPL increasing its current capacity further by 4,200 MT. The management is confident of crossing the annual target of 63,000 tons for FY25E along with focusing on integrating operations of the two acquired entities and realizing the benefits of synergies and higher capacity. **We increase our FY26E P/E multiple to 25.0x (earlier 24.0x) reflecting the anticipated benefits from several key factors such as a) enhanced capacity from recent acquisitions, b) improved capacity utilization, c) robust demand, d) significant growth opportunities, and e) realization of synergy benefits from BCIPL and DFPL. We increase our FY26E EPS to INR 62.1 (earlier: INR 57.5) on the back of strong volume growth anticipated in coming quarters. Accordingly, we raise our target price to INR 1,552 (earlier: INR 1,379) and retain our "BUY" rating on the shares of Pitti Engineering Ltd.**

Sales realisation trend declined QoQ



Source: Company, KRChoksey Research

EBITDA/Ton declined due to BCIPL and is expected to improve going forward





Pitti Engineering Ltd

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenues	9,538	11,002	12,016	20,331	22,178
COGS	6,781	7,823	8,059	13,622	14,837
Gross profit	2,757	3,179	3,957	6,709	7,341
Employee cost	785	866	1,082	1,911	2,040
Other expenses	646	799	1,098	1,809	1,930
EBITDA	1,326	1,514	1,777	2,989	3,371
Depreciation & amortization	389	447	540	562	583
EBIT	937	1,067	1,237	2,426	2,788
Interest expense	396	447	500	691	552
Other Income	164	178	482	610	699
PBT	706	799	1,219	2,345	2,935
Tax	187	211	317	610	734
PAT	519	588	902	1,735	2,201
EPS (INR)	16.2	18.4	28.1	48.9	62.1

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Cash Flow From Operations	879	2,222	736	1,793	2,479
Cash Flow from Investing	-928	-1,035	-2,357	-240	299
Cash Flow from Financing	122	-866	1,984	2,298	-2,206
Net Inc/Dec in cash equivalents	73	321	362	3,851	572
Opening Cash Balance	4	77	397	759	4,610
Closing Cash Balance	77	398	759	4,610	5,182

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	13.9%	13.8%	14.8%	14.7%	15.2%
Net Profit Margin (%)	5.4%	5.3%	7.5%	8.5%	9.9%
RoE (%)	18.3%	17.6%	21.7%	18.9%	19.8%
RoCE (%)	23.8%	23.4%	18.2%	19.5%	20.8%
Debt to Equity (x)	0.4x	0.4x	0.6x	0.4x	0.2x

Source: Company, KRChoksey Research

## Pitti Engineering Ltd

### Exhibit 4: Balance Sheet

INR Millions	FY22	FY23	FY24	FY25E	FY26E
<b>Equity</b>					
Equity Capital	160	160	160	160	160
Other Equity	2,679	3,181	4,002	9,037	10,984
<b>Total Equity</b>	<b>2,840</b>	<b>3,341</b>	<b>4,162</b>	<b>9,197</b>	<b>11,144</b>
<b>Non-Current Liabilities</b>					
Borrowings	1,102	1,219	2,629	3,229	2,229
Lease Liabilities	527	540	626	626	626
Provisions	78	82	173	293	319
Deferred Tax Liabilities	91	85	37	37	37
<b>Total Non-Current Liabilities</b>	<b>1,799</b>	<b>1,926</b>	<b>3,465</b>	<b>4,184</b>	<b>3,211</b>
<b>Current Liabilities</b>					
Borrowings	2,142	1,680	2,737	1,737	1,337
Trade Paybles	2,202	2,513	2,276	3,850	4,200
Lease Liabilities	154	125	169	169	169
Other Financial Liabilities	85	83	127	214	234
Other Current Liabilities	148	45	32	54	59
Provisions	38	43	62	104	114
Current Tax Liability	156	24	271	458	500
<b>Total Current Liabilities</b>	<b>4,926</b>	<b>4,513</b>	<b>5,673</b>	<b>6,587</b>	<b>6,612</b>
<b>Total Liabilities</b>	<b>9,564</b>	<b>9,780</b>	<b>13,300</b>	<b>19,969</b>	<b>20,968</b>
<b>Non-Current Assets</b>					
Property Plants and Equipments	2,279	2,789	3,336	3,801	3,706
CWIP	6	241	1,181	1,181	1,181
Right of use of Assets	828	743	833	567	479
Intangible Asset	138	92	52	52	52
Investment in JV	20	19	0	0	0
Investments	165	152	152	152	152
Other Financial Assets	19	85	38	64	70
Other non-current assets	232	237	640	1,083	1,182
<b>Total Non-Current Assets</b>	<b>3,687</b>	<b>4,358</b>	<b>6,233</b>	<b>6,900</b>	<b>6,821</b>
<b>Current Assets</b>					
Inventories	2,723	2,393	2,702	4,178	4,557
Trade Receivables	2,043	1,814	2,104	3,008	3,160
Cash and Cash Equivalants	76	397	759	4,610	5,182
Bank Balances other than Cash	274	255	335	335	335
Other Financial Assets	9	9	14	24	26
Other Current Assets	753	554	1,153	915	887
<b>Total Current Assets</b>	<b>5,877</b>	<b>5,422</b>	<b>7,067</b>	<b>13,069</b>	<b>14,147</b>
<b>Total Assets</b>	<b>9,564</b>	<b>9,780</b>	<b>13,300</b>	<b>19,969</b>	<b>20,968</b>

Source: Company, KRChoksey Research

# Pitti Engineering Ltd

Pitti Engineering Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
21-Aug-24	1,347	1,552	BUY
26-Jul-24	1,187	1,379	BUY
23-May-24	878	1,132	BUY
18-Mar-24	723	1,083	BUY
27-Feb-24	798	1,027	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%

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