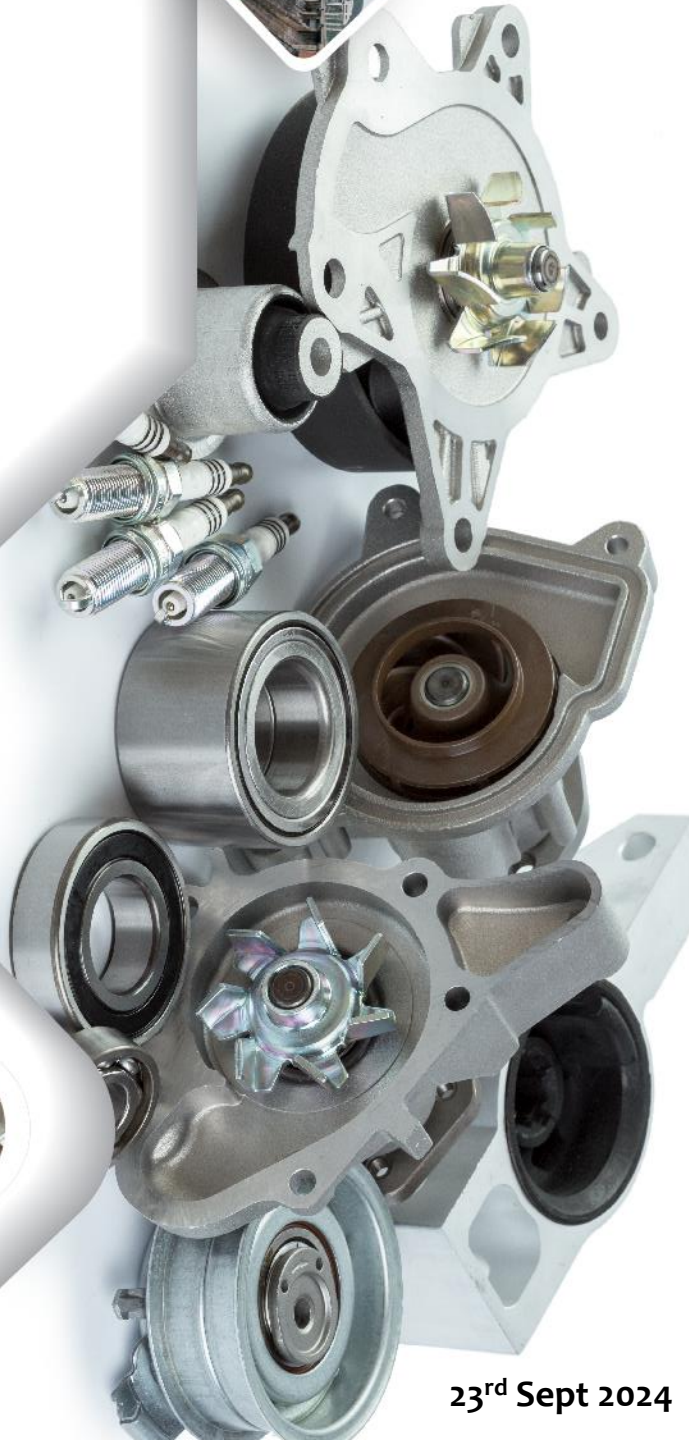


# Pitti Engineering Ltd

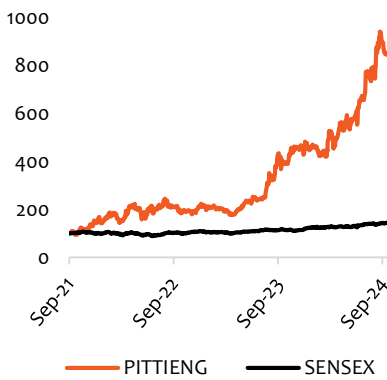


**Pitti Engineering Ltd.**
**Site Visit: Aurangabad facility expansion progressing as planned**

CMP INR 1,284	Target INR 1,552	Potential Upside 20.9%	Market Cap (INR Mn) 45,404	Recommendation BUY	Sector Engineering
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**MARKET DATA**

Shares outs (Mn)	35
Mkt Cap (INR Mn)	45,404
52 Wk H/L (INR)	1,447/580
Volume Avg (3m K)	127.4
Face Value (INR)	5.0
Bloomberg Code	PITTIENG IN

**SHARE PRICE PERFORMANCE**

**MARKET INFO**

SENSEX	84,929
NIFTY	25,939

**SHAREHOLDING PATTERN (%)**

Particulars	Jun-24	Mar-24	Dec-23
Promoters	53.6	59.3	59.3
FIIIs	1.3	0.5	0.2
DIIIs	15.2	5.9	6.6
Others	29.9	34.3	33.9
Total	100.0	100	100

- We recently conducted a visit to the Aurangabad facility of Pitti Engineering. This facility encompasses 26 acres of freehold land, currently featuring a built-up area of over 16,500+ square meters.
- Following the planned expansion, the built-up area is expected to increase to over 38,600+ square meters.
- Pitti is presently involved in the manufacturing of iron and steel products, which include electrical steel laminations, sub-assemblies for motor and generator cores, die-cast rotors, as well as machined cast and fabricated parts and shafts, thereby contributing significantly to the value chain of motor manufacturing.
- The Aurangabad facility possesses capabilities in lamination, machining, assembling, shafting, tooling, etc. while most of the casting and machining happen at the Hyderabad plant.
- The underlying expansion of the Aurangabad facility is focused on lamination, moving deeper into the value chain, sub-assemblies, and manufacturing of larger shafts that are suitable for more powerful motors.
- The Aurangabad facility is also equipped with slitting capabilities which enables Pitti to slit the coil into specified length and width as per requirement. It also helps in cost optimization.
- The ongoing expansion will help Pitti Engineering move deeper into the value chain by manufacturing larger shafts for more powerful motors and integrating more sub-assemblies. This is part of their strategic shift towards increased lamination capabilities.
- We expect Revenue/ EBITDA/ PAT to grow at a CAGR of 35.3%/ 37.9%/ 56.2% over FY24-FY26E.
- We retain our FY26E EPS to INR 62.1 and FY26E P/E multiple to 25.0x, reflecting our confidence in Pitti Engineering's growth prospects driven by: a) the expansion of its Aurangabad facility, b) enhanced capacity from recent acquisitions - Bagadia Chaitra Industries Private Ltd. (BCIPL) and Dakshin Foundry Private Limited (DCFL), c) its involvement in high-growth sectors such as renewables and railways, d) the planned entry into copper windings. These factors should strengthen Pitti's market position and allow it to contribute more to the entire value chain in motor manufacturing.
- Consequently, we maintain our target price of INR 1,552 and uphold our "BUY" rating on Pitti Engineering Ltd.**

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	11,002	12,016	20,356	21,984	23,768
EBITDA	1,514	1,777	2,992	3,381	3,708
Adj. PAT	588	902	1,735	2,201	2,545
Adj. EPS (INR)	18.4	28.1	48.9	62.1	71.8
EBITDA Margin	13.8%	14.8%	14.7%	15.4%	15.6%
Adj. NPM	5.3%	7.5%	8.5%	10.0%	10.7%

Source: Company, KRChoksey Research

## Pitti Engineering Ltd.

### Additional plant visit details:

- Pitti has around 100 notching machines required for lamination. These notching machines are specialized metal fabrication equipment designed for the precision cutting of metal plates. Pitti also has an automated notching machine which brings more operational efficiency into the business.
- It also has high-speed stamping machines which lead to the formation of complex shapes that optimize the performance and accommodate various design requirements.
- The Aurangabad facility has CTL (Cut-To-Length) machines that give the required shapes to the coil, and it is sent for the blanking process using an automated blanking press.
- Pitti has 20 CNC machines (including the machines under installation) in the Aurangabad facility, all the CNC machines can at least move along 5-axis, and these machines are instrumental in the manufacturing of shafts and other components.

### Raw material management:

- The Aurangabad facility holds 6,000 tons of steel coils at any given time, sourced from major suppliers like POSCO, JSW, and China Steel.
- Its in-house slitting capabilities offer customization and cost optimization.

### Growth levers

#### Expansion into copper windings to strengthen market position

- Pitti Engineering's plan to enter into the copper windings segment marks a strategic advancement in its motor manufacturing value chain.
- This initiative is expected to drive significant growth, increase customer wallet share, and attract new clientele.
- By incorporating copper windings, Pitti aims to move deeper into the value chain and strengthen its competitive position in the industry over the medium to long term.

#### Expansion of Aurangabad facility

- Upon the commissioning of the expanded facility in Aurangabad, the consolidated capacity will rise from 56,000 TPA to 90,000 TPA, thereby further solidifying Pitti's position as India's largest manufacturer of laminations.

#### Unlocking new markets and regions through strategic acquisitions.

- The company has acquired Bagadia Chaitra Industries Private Limited and Dakshin Foundry Private Limited ("DFPL"), with their manufacturing plants in Karnataka. Establishing a strategic manufacturing base in Bengaluru.
- Both the acquisitions made by Pitti will expand its current capacity, adding to the overall asset base, increasing geographical reach, providing entry into new end-use sectors, and potential addition of new customers.

#### Railway sector engagement:

- The company has contributed to the ramping up of Vande Bharat trains by developing value-added products for a total of 18 projects.
- Additionally, it has supported Indian Railways by enhancing the supply of 6FRA products to traction motor manufacturers.
- The company anticipates an increase in railway orders in the near term, with the total order book for valued at INR 10,000 Mn as mentioned in the Q1FY25 concall.

#### Renewable sector engagement:

- Pitti Engineering has also established a strong presence in the renewable energy sector. The company has enhanced its contributions to wind power generation by supporting projects up to 5 MW and delivering high-quality products to prestigious international clients.
- Additionally, Pitti has developed and supplied critical components for electrolysers used in green hydrogen production to an overseas customer, further demonstrating its capabilities in the renewable energy domain.

#### Growth prospects in machined components

- The company is optimistic about the growth of its machined component vertical. To secure high-quality castings and reduce related-party transactions, the company is also merging Pitti Castings Private Limited with Pitti Engineering Limited. This merger aims to attract prominent clients and enhance the development of machined castings for existing customers.

## Pitti Engineering Ltd.

### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenues</b>	<b>11,002</b>	<b>12,016</b>	<b>20,356</b>	<b>21,984</b>	<b>23,768</b>
COGS	7,823	8,059	13,639	14,685	15,853
<b>Gross profit</b>	<b>3,179</b>	<b>3,957</b>	<b>6,718</b>	<b>7,299</b>	<b>7,915</b>
Employee cost	885	1,082	1,913	2,027	2,163
Other expenses	780	1,098	1,812	1,891	2,044
<b>EBITDA</b>	<b>1,514</b>	<b>1,777</b>	<b>2,992</b>	<b>3,381</b>	<b>3,708</b>
Depreciation & amortization	447	540	568	589	616
<b>EBIT</b>	<b>1,067</b>	<b>1,237</b>	<b>2,424</b>	<b>2,792</b>	<b>3,091</b>
Interest expense	447	500	691	550	446
Other Income	178	482	611	692	749
<b>PBT</b>	<b>799</b>	<b>1,219</b>	<b>2,344</b>	<b>2,935</b>	<b>3,394</b>
Tax	211	317	609	734	848
<b>PAT</b>	<b>588</b>	<b>902</b>	<b>1,735</b>	<b>2,201</b>	<b>2,545</b>
<b>EPS (INR)</b>	<b>18.4</b>	<b>28.1</b>	<b>48.9</b>	<b>62.1</b>	<b>71.8</b>

Source: Company, KRChoksey Research

#### Exhibit 2: Cash Flow Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Cash Flow From Operations	2,222	736	1,791	2,534	2,501
Cash Flow from Investing	-1,035	-2,357	-239	292	349
Cash Flow from Financing	-866	1,984	2,209	-2,204	-2,140
Net Inc/Dec in cash equivalents	321	362	3,761	622	710
Opening Cash Balance	77	397	759	4,520	5,142
Closing Cash Balance	398	759	4,520	5,142	5,852

Source: Company, KRChoksey Research

#### Exhibit 3: Key Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	13.8%	14.8%	14.7%	15.4%	15.6%
Net Profit Margin (%)	5.3%	7.5%	8.5%	10.0%	10.7%
RoE (%)	17.6%	21.7%	18.9%	19.8%	19.0%
RoCE (%)	23.4%	18.2%	19.5%	20.9%	21.1%
Debt to Equity (x)	0.4x	0.6x	0.4x	0.2x	0.1x

Source: Company, KRChoksey Research

## Pitti Engineering Ltd.

### Exhibit 4: Balance Sheet

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
<b>Equity</b>					
Equity Capital	160	160	160	160	160
Other Equity	3,181	4,002	9,036	10,983	13,235
<b>Total Equity</b>	<b>3,341</b>	<b>4,162</b>	<b>9,197</b>	<b>11,144</b>	<b>13,395</b>
<b>Non-Current Liabilities</b>					
Borrowings	1,219	2,629	3,229	2,229	1,229
Lease Liabilities	540	626	626	626	626
Provisions	82	173	293	316	342
Deferred Tax Liabilities	85	37	37	37	37
<b>Total Non-Current Liabilities</b>	<b>1,926</b>	<b>3,465</b>	<b>4,185</b>	<b>3,208</b>	<b>2,234</b>
<b>Current Liabilities</b>					
Borrowings	1,680	2,737	1,737	1,337	937
Trade Paybles	2,513	2,276	3,855	4,163	4,501
Lease Liabilities	125	169	169	169	169
Other Financial Liabilities	83	127	214	232	250
Other Current Liabilities	45	32	54	58	63
Provisions	43	62	105	113	122
Current Tax Liability	24	271	459	496	536
<b>Total Current Liabilities</b>	<b>4,513</b>	<b>5,673</b>	<b>6,593</b>	<b>6,568</b>	<b>6,578</b>
<b>Total Liabilities</b>	<b>9,780</b>	<b>13,300</b>	<b>19,974</b>	<b>20,919</b>	<b>22,208</b>
<b>Non-Current Assets</b>					
Property Plants and Equipments	2,789	3,336	3,713	3,619	3,497
CWIP	241	1,181	1,181	1,181	1,181
Right of use of Assets	743	833	739	644	550
Intangible Asset	92	52	52	52	52
Investment in JV	19	0	0	0	0
Investments	152	152	152	152	152
Other Financial Assets	85	38	64	69	75
Other non-current assets	237	640	1,085	1,171	1,266
<b>Total Non-Current Assets</b>	<b>4,358</b>	<b>6,233</b>	<b>6,985</b>	<b>6,888</b>	<b>6,773</b>
<b>Current Assets</b>					
Inventories	2,393	2,702	4,183	4,517	4,884
Trade Receivables	1,814	2,104	3,012	3,132	3,386
Cash and Cash Equivalants	397	759	4,520	5,142	5,852
Bank Balances other than Cash	255	335	335	335	335
Other Financial Assets	9	14	24	26	28
Other Current Assets	554	1,153	916	879	951
<b>Total Current Assets</b>	<b>5,422</b>	<b>7,067</b>	<b>12,989</b>	<b>14,031</b>	<b>15,435</b>
<b>Total Assets</b>	<b>9,780</b>	<b>13,300</b>	<b>19,974</b>	<b>20,919</b>	<b>22,208</b>

Source: Company, KRChoksey Research

## Pitti Engineering Ltd.

Pitti Engineering Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
23-Sep-24	1,284	1,552	BUY
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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