



IMPROVING PROFITABILITY ONE MOTOR AT A TIME!

Pitti Engineering Ltd. (PITTIENG), founded in 1983, is India's largest and globally renowned manufacturer of electrical sheet laminations, motor cores, sub-assemblies, die-cast rotors, and machined components. The company specializes in manufacturing value-added motor/generator sub-assemblies with an expertise of ~40 years in the domain. The company's key product lines include sheet metal, precision machining, and assemblies. The company's products are sold across 5 continents through its 3 domestic state-of-the-art manufacturing plants.

Value-added products to yield higher realizations

PEL has strategically evolved its products to meet market demands, resulting in the company's profitability improvement. These value-added products have also helped the company to enhance its competitive edge and attract more customers. In FY23, PEL's EBITDA/Ton improved by 5% (3-year CAGR), thereby improving its profitability further by 51% (3-year CAGR). These value-added products have also helped the company to enhance its competitive edge and attract more customers. Revenue from export orders stood at Rs 371 Cr which improved by 25% YoY. Similarly, with increasing demand in the renewable energy segment in the international market, we believe the export market will significantly aid in PEL's revenue growth and improve its profitability moving forward.

Capex-driven economy to support robust order book

In FY23, PITTI's order book significantly improved by 149% YoY to Rs 823 Cr backed by a) a diversified product basket, and b) robust demand from the domestic market on account of economic growth and increasing enquiries from the international market. We expect the company's order book to further improve given the increasing growth and demand from the Railways, Power Generation, and Industrial sectors for the company's products. To cater to this demand, PEL has already carried a major Capex of Rs 467 Cr in a phased manner from FY21. This has increased PEL's production capacity by ~56% in the last 3 years. Earlier, PEL used to supply products to 100 windmills a year whereas, with increasing demand in the renewable energy segment, PEL is currently supplying its products to 100 windmills per month. This supply is expected to further increase as many players have made India a hub for sourcing for its South Asian country's needs.

Pitti Casting (PCPL) Merger and potential acquisition

PEL recently announced the merger of Pitti Castings Pvt. Ltd. – a group company engaged in the manufacturing of high-quality casting in grey iron, ductile iron, low carbon, and alloy steel grades. Post-merger, PCL's revenue is expected to grow significantly on account of robust demand in the components business, leading to higher operating margins for the company. In FY23, PCPL's revenue stood at Rs 150 Cr, in which PEL contributed Rs 80 Cr. This merger will aid the company in ensuring a consistent supply of high-quality casting products and will have enhanced control over the supply and inventory management of raw materials. PEL is also looking into potential acquisitions to further increase its market share and sales volume by 20%.

Valuation & Recommendation

We initiate coverage on Pitti Engineering Ltd. (PEL) with a BUY recommendation. Our recommendation is supported by a) The company's increasing capacity b) Its increasing share of value-added products, and c) Its expanding global footprints.

We expect the company's revenue to grow at a CAGR of 13% to Rs 1,588 Cr by FY26 (factoring similar raw material price trend as of H1FY24 backed by volume CAGR of 16% by FY26E). On the operational front, its EBITDA is expected to grow at 13% CAGR to Rs 258 Cr by FY26E, led by an increase in value-added products, resulting in operating margin expansion (by 240bps to 16.2% by FY26). We believe these factors will cumulatively boost the company's profitability at a CAGR of 38% by FY26E to Rs 154 Cr. A combined strategic operation will further support in improving the company's ROE and ROCE to 25.8% and 26.7% respectively by FY26E.

We thus value the company at 19x on FY26 earnings to arrive at a Target Price of Rs 915/share, implying an upside of 40% from the current levels.

Key Financials (Consolidated)

(Rs Cr)	FY23	FY24E	FY25E	FY26E
Net Sales	1,100	1,201	1,351	1,588
Operating Profit	151	184	212	258
OPM (%)	13.8	15.3	15.7	16.2
Net Profit	59	100	114	154
EPS (Rs)	18.4	29.1	35.1	48.0
ROE (%)	19.0	24.8	23.9	25.8
ROCE (%)	20.9	24.6	23.1	26.7
P/E Ratio	37	22	19	14
P/BV	6	5	4	3
EV/ EBITDA	15	13	11	9
Debt / Equity (x)	0.8	0.9	0.7	0.4

Source: company, Axis Research

CMP as of 30th November, 2023

CMP (Rs)	653
Upside /Downside (%)	40
High/Low (Rs)	736/257
Market cap (Cr)	2.087
Avg. daily vol. (6m) Shrs.	90.414
No. of shares (Cr)	3.2

Shareholding (%)

	Mar-23	Jun-22	Sept-23
Promoter Group	59.3	59.3	59.3
FII	0.0	0.2	0.1
MF's/Banks	3.1	3.0	2.4
Others	37.6	37.5	38.2

Financial & Valuations

Y/E Dec (Rs Cr)	FY23	FY24E	FY25E	FY26E
Net Sales	1,100	1,201	1,351	1,588
EBITDA	151	184	212	258
Net Profit	59	93	112	154
EPS (Rs)	18.4	29.1	35.1	48.0
PER (x)	37	23	19	14
EV/ EBITDA	15	14	11	9
P/BV (x)	6	5	4	3
ROE (%)	19.0	24.8	23.9	25.8

Key Drivers (%) (Growth in %)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net Sales	15.3	9.2	12.4	17.6
EBITDA	14.7	21.8	15.0	21.7
Net Profit	13.3	58.4	20.7	36.7

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Average	NA

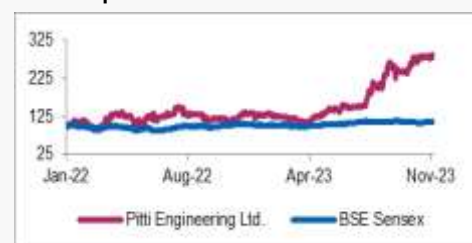
Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, The Sector average is for NSE500 companies

Axis vs. Consensus

EPS Est.	FY23	FY24E	FY25E	FY26E
Axis	18	29	35	48
Consensus	18	26	34	47
Mean Consensus TP (12M)	940			

Relative performance



Source: Ace Equity, Axis Securities

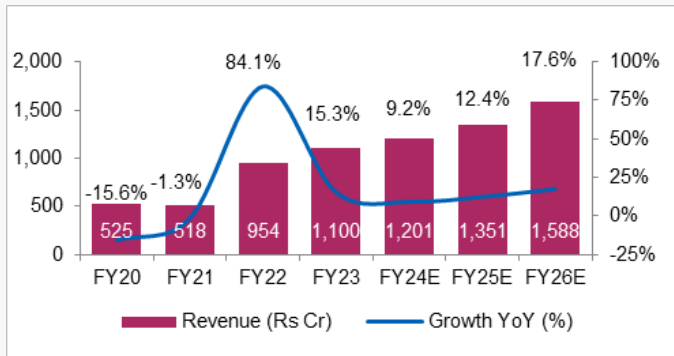
Akshay Mokashe

Research Analyst

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Financial Story in Charts

Exhibit 1: Robust order book driving healthy revenue growth (Rs Cr)



Source: Company, Axis Securities

Exhibit 2: Operating efficiencies leading to Improved EBITDA Margins

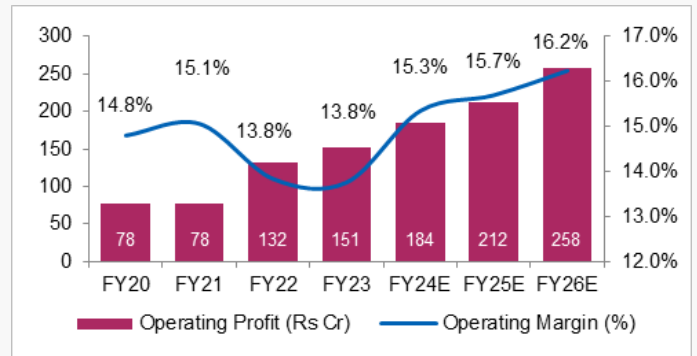
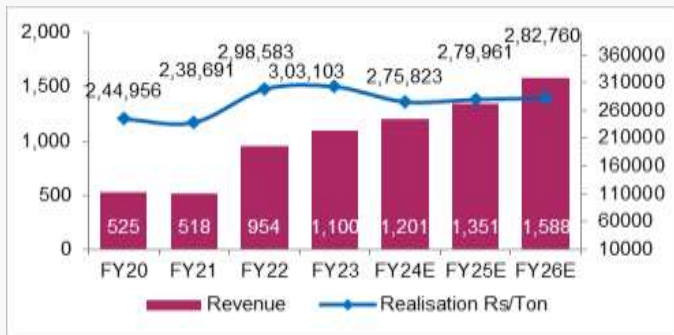


Exhibit 3: Capacity addition leading to revenue growth



Source: Company, Axis Securities

Exhibit 4: Operating leverage leading to better EBITDA/Ton

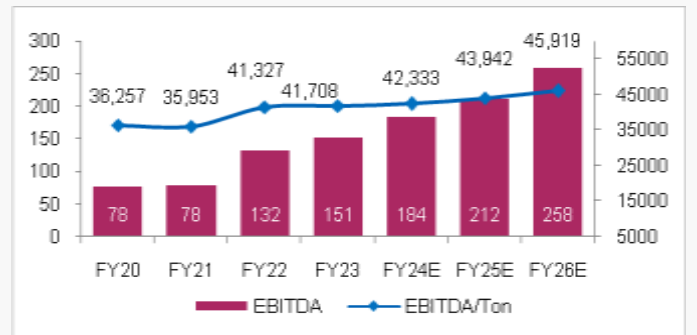
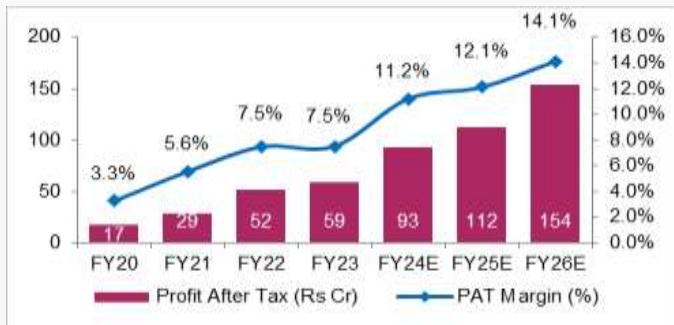


Exhibit 5: Earnings Growth led by structural shift (in Cr)



Source: Company, Axis Securities

Exhibit 6: Vigorous focus on reducing debt

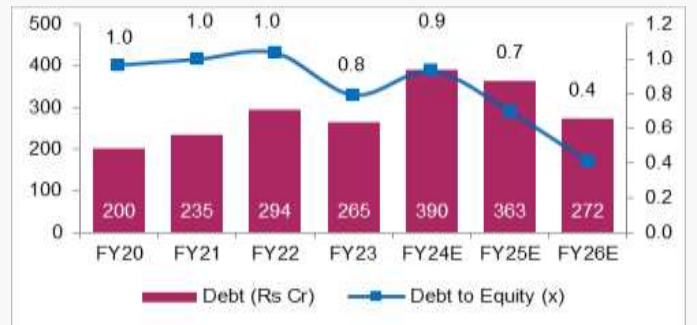
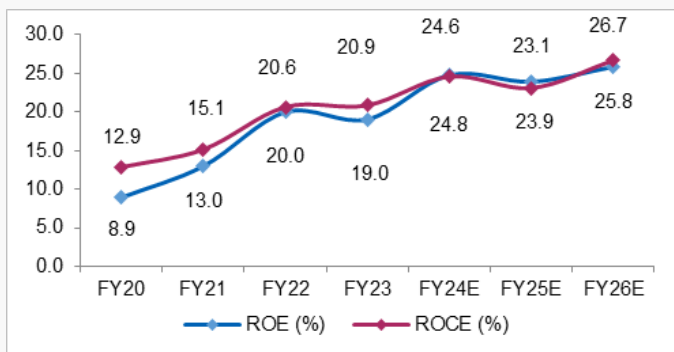
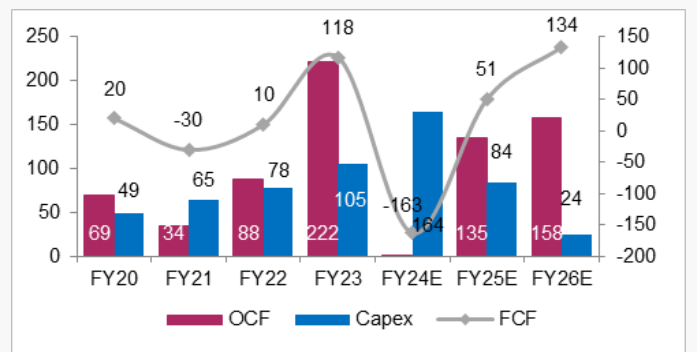


Exhibit 7: Value-added product mix to aid in ROE Improvement



Source: Company, Bloomberg, Axis Securities

Exhibit 8: Strong FCF led by capacity addition in FY26



Company Overview

Pitti Engineering Ltd. (PITTIENG) has over 4 decades of experience in the manufacturing sector and specializes in the production of sheet metal components. PEL has a diversified range of products from motor cores and sub-assemblies to die-cast rotors and precision machining of metal components. Its fully automated manufacturing facilities operate in two segments – Motors and Generators and Components. It is also one of the market leaders for assemblies for large alternators and motors in India. Indian railways have three to four approved suppliers for its diesel and electric locomotives supply and all these companies fall under PEL's marquee clientele.

PEL is one of the largest manufacturer and exporter of electrical laminations from India.

It is also one of the leading suppliers to all motor manufacturers in India.

Company Structure

PEL is headquartered in Hyderabad, Telangana. The company has three manufacturing plants two in Hyderabad where this facility majorly focuses on export orders and one in Aurangabad where manufacturing of sheet metals and machining is carried out. The company has one un-operational subsidiary Pitti Rail and Engineering Components a wholly owned subsidiary which is soon to be merged under Pitti Engineering. PEL does not have any Joint Ventures or Associate companies.

PEL will receive yearly incentivized income for its Aurangabad facility under the Mega Project Initiative Package Scheme 2013 of Maharashtra.

Pitti Engineering manufacturing facilities

Exhibit 9: Manufacturing Facilities:



Source: Company, Axis Securities

- **Hyderabad:** Two manufacturing facilities located in Hyderabad have larger machining capacity and majorly cater to the export market.
- **Aurangabad:** A state-of-the-art manufacturing facility that has a larger lamination capacity is strategically located to cater to its end customers.

Manufacturing Capacities

Exhibit 10: Sheet Metal Capacity vs Capacity Utilizations (in MT)

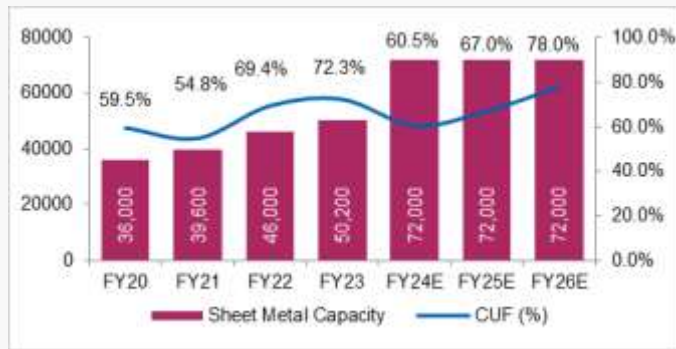


Exhibit 11: Machining Hours



Source: Company, Bloomberg, Axis Securities

End User Application as % of Revenue

Exhibit 12: End User Application as % of Revenue (FY22) (in Cr)

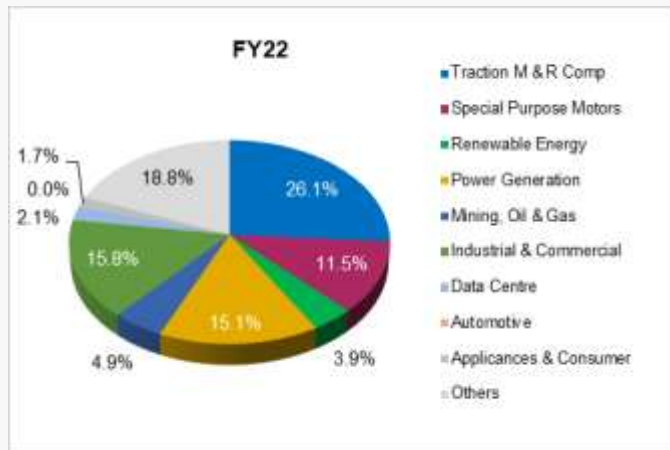
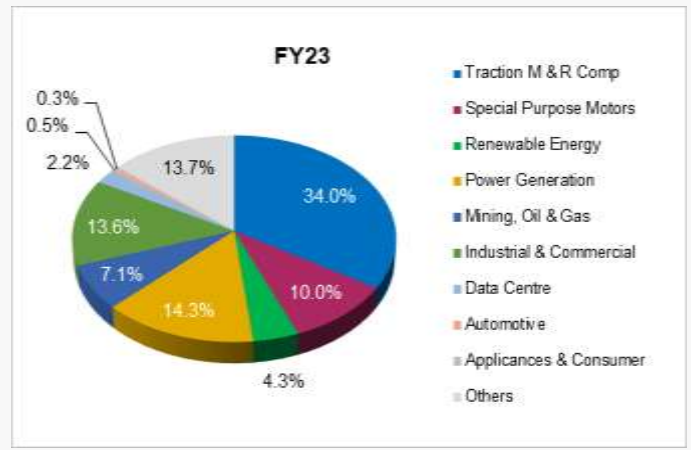


Exhibit 13: End User Application as % of Revenue (FY23) (in Cr)



Source: Company, Bloomberg, Axis Securities

Exhibit 14: End User Application revenue breakup (in Cr)

End User Application revenue Breakup	FY22	FY23	H1FY24	FY26E*	CAGR 3 yrs	End Use	Exports
Traction M & R Comp	249	374	203	560	14.4%	Railways	>50%
Special Purpose Motors	110	110	53	140	8.4%		20%
Renewable Energy	37	47	20	110	32.9%	Wind and Hydro	50%
Power Generation	144	157	89	190	6.5%		
Mining, Oil & Gas	46	78	19	80	0.9%		75-80%
Industrial & Commercial	151	149	79	200	10.3%		
Data Centre	20	24	9	35	12.6%	Generators	
Automotive	0	6	2	30	71.3%	Vehicles, EVs, etc	
Appliances & Consumer	16	4	1	40	125.2%	Fans	
Others	180	151	106	203	10.5%		
Total Revenue	953	1,100	580	1,588	13%		

Notes*: Revenue estimates factoring H1FY24 raw material price trend.

Exhibit 15: End User Industries






Source: Company, Axis Securities

Exhibit 16: PEL Marquee clients



Source: Company, Axis Securities

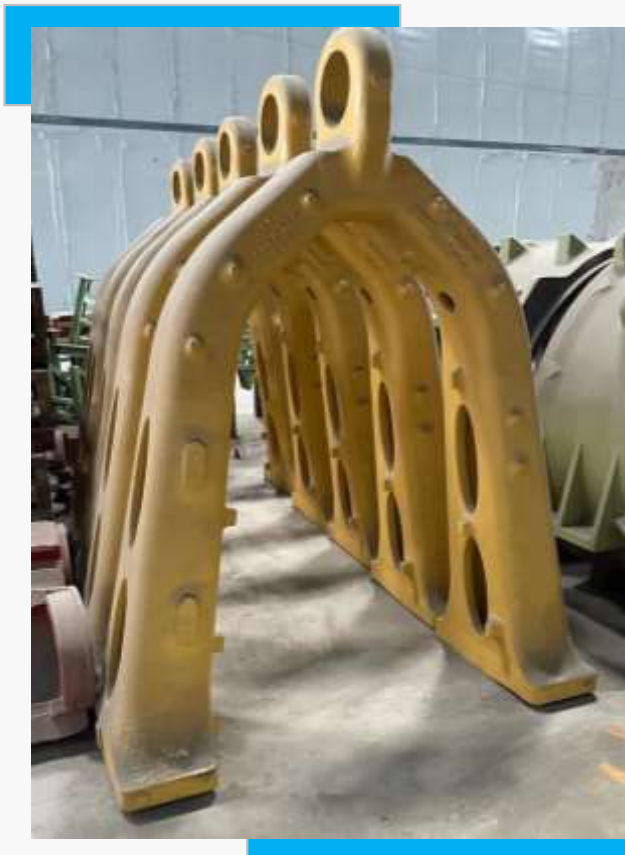
Product Lines

	Sheet Metals	Precision Machining	Assemblies
Summary	One of the largest manufacturers and exporters of electrical laminations from India.	Hi-end Japanese and German CNC machines	Expertise in handling large-scale stator cores.
Specification	Produces diameter 14mm to 1357mm size used in 20+ end-user industries	5Axis CNC machines up to 1,600mm X 1,600mm travel for complex machining parts	Motor and Generator Core Assemblies up to a diameter of 2000mm
End Product images			

Source: Company, Bloomberg, Axis Securities

Product Pictures

Exhibit 17: PEL Marquee clients



Product: Component
Description: A support frame for a mining truck (off-highway vehicle)
Customer: Caterpillar

Source: Company, Bloomberg, Axis Securities



Product: Traction Motor
Description: Used in locomotives
Customer: Wabtec

Story So Far...

In the last 5 years, PEL has aggressively focussed on expanding its capacity and improving its EBITDA/Ton by introducing value-added products. This strategy has significantly helped the company as its revenue has grown twofold in the last 5 years. PEL is increasing its sheet lamination installed capacity from 50,200MT to 72,000MT by FY24 end which was expected in H1FY25. It has also structured its manufacturing facility where the Aurangabad facility manufactures end products and caters to the domestic clientele and the Hyderabad facility assembles value-added products which is exported.

Exhibit 18: Capex Timeline



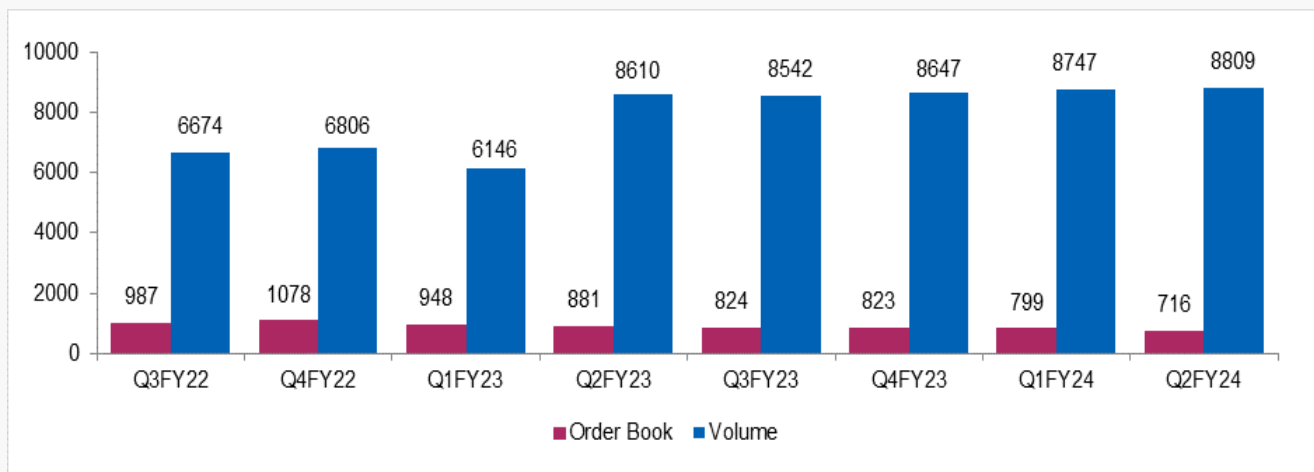
Source: Company, Axis Securities

Story Ahead...

PEL is aggressively focusing on a value-added product mix and increasing revenue share from the component segment. Additionally, with an increase in government spending towards infrastructure and railways, PEL has been one of the direct benefactors as Indian railways have approved only three to four suppliers for the diesel and electric locomotives supply and all these companies fall under PEL's marquee clientele. Earlier, PEL used to supply products to 100 windmills a year whereas with increasing demand in the renewable energy segment, PEL is currently supplying its products to 100 windmills per month. This supply is expected to further increase as many players have made India a hub for sourcing for its South Asian countries' needs.

Fall in the order book graph is due to correction in raw material prices. Steel prices in the last 1 year have declined by ~20%

Exhibit 19: Order Book (in Cr) Vs Sales Volume (MT)



Source: Company, Bloomberg, Axis Securities

Merger with Pitti Castings

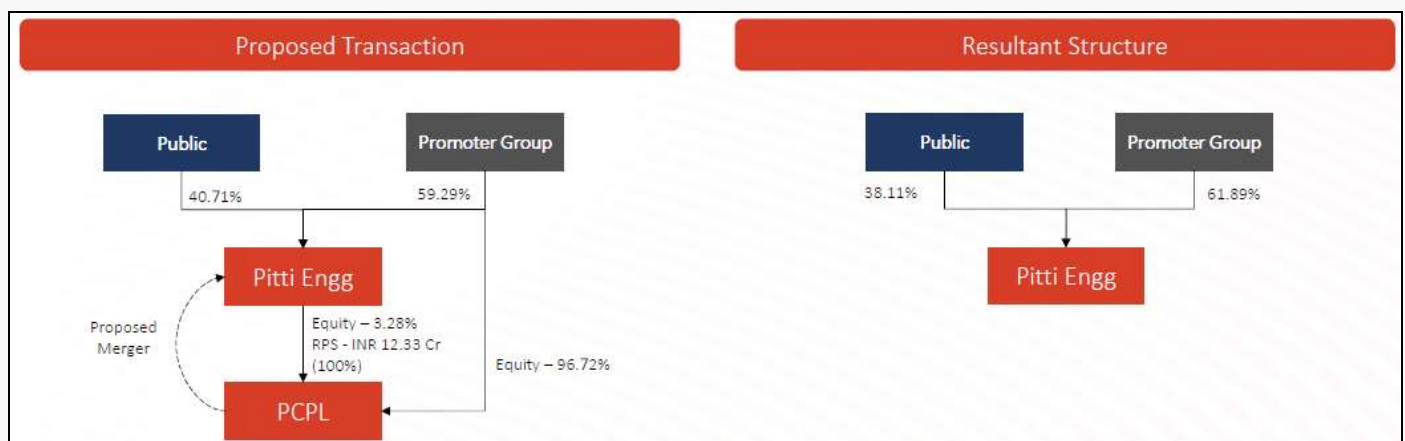
PEL recently announced the merger of its group company – Pitti Castings Pvt. Ltd. to itself for an enterprise value of Rs 100 Cr. This merger is expected to be completed by FY24 end after completing all necessary approvals and other compliance parts. Promoter stake will increase by 2.5% as the promoters have got shares in swap ratio which is one share for 55 shares held by the promoters in Pitti Castings Pvt. Ltd.

PCPL's revenue in the last 2 years grew at a CAGR of 18% to Rs 150 Cr and EBITDA margins have expanded by 200bps to 8.5% in FY23 vs. 6.5% in FY21.

About the company

PCL – incorporated in 2011, has distinctive capability in manufacturing Spheroidal Graphite iron-graded parts with zero impact resistance used in windmill locomotives, high tensile SG-graded parts used in mining trucks and High MnNi alloy carbon steel castings with sub-zero impact resistance used in locomotives and mining. PCPL has a CLASS-A Foundry Certified by the Research Designs and Standards organisation, Ministry of Railways India (RDSO). A state of art foundry manufactures high-quality castings from a weight range of 50 kg to 300 kg. In FY23, the capacity of PCPL stood at 8,000 MT whereas its utilisation stood at 56%. Currently, capacity stands at 14,400MT and with robust demand and a healthy order book, it is expected to reach 80% utilisation levels by FY25.

Exhibit 20: PEL Marquee clients



Source: Company, Bloomberg, Axis Securities

Unlocking Potential

In FY23, PEL contributed Rs 80 Cr in revenue for PCPL amongst its total turnover of Rs 150 Cr. This merger will help PEL to further improve its revenue by diversifying its business and new set of PCPL's existing clients. This merger will also broaden PEL's global footprint and will have enhanced control over the supply and inventory management of raw materials. On profitability, PEL's EBITDA margins will further improve as the components business yields higher double-digit margins compared to its existing steel lamination manufacturing set-up.

In FY23, PEL initiated the direct supply of suspension and axle housing gear protectors to Indian Railways, with additional products awaiting approval. This development holds the promise of the components business achieving a revenue potential of Rs300 Cr by FY26. According to management guidance, the components business is expected to contribute approximately 40% of the total revenue by FY29.

Potential Acquisition?

With robust demand from the railway segment and increasing order books, PEL is currently evaluating all possible options to acquire any existing company and increase its market share. Management has guided that it will plan to acquire a company that generates a revenue between Rs 275-325 Cr, operating profit in the range of 15-20 Cr and sales volume ranging from 10,000 MT to 15,000 MT. Management has also guided that if they see such opportunities they will be willing to pay at 8-9x EV/EBITDA.

Management meeting Takeaways

Key Takeaways

- The EV market is still undiscovered as currently most of the motors for EV vehicles are imported. If the government of India decides to localise this market, PEL will have an upper hand in future orders backed by its 3 decades of motor manufacturing experience.
- Total debt for the company in FY23 stands at Rs 280 Cr, where we expect debt to increase to a max of Rs 350-390 Cr due to robust expansion activities. Incremental capex will be carried out from its internal accruals only.
- To increase its capacity and further gain market share, PEL is looking into acquisition prospects with sales volume ranging between 10,000-15,000MT.
- Reduction in raw material cost has resulted in a reduction of the working capital cycle.
- The components business will contribute 40% of net sales by FY27 which yields 20-22% of EBITDA margins.

Domestic market

- The Indian Government has significantly increased its focus on the development of the Indian railways and Metro.
- Only three to four suppliers have been given the approval to supply products for the Indian Railways where PEL is the major to these companies. So any incremental demand in the railway segment will directly benefit PEL
- PEL has started supplying components directly to the Indian railways.
- FY23-24 is witnessing a robust Capex in renewable energy activities
- The Capex activities undergone by the company had two primary motives of high automation and less expensive economy of scale.
- Amongst its existing clientele, Cummins, Alstom, VABTEC, Siemens and ABB are the major revenue contributors.
- The company has 10% market share of the total market size and around 36% market share of the organised market.

International market

- The international market has witnessed increasing robust demand in the marine applications and renewable energy segment.
- PEL mainly receives international orders via its domestic clientele as its manufacturing facilities are also located in other countries.
- Northern America is witnessing a massive modernization of public infrastructure
- PEL has witnessed new orders from the European market which contributes ~Rs 100 Cr to revenue. The European market is opening for larger assembly products where the company expects to supply components in the next 2 years.
- Almost 50% of revenue in Traction Motor is from export orders. PEL is witnessing an increase in the addition of railways in the international market which will further increase the company's top line.

Key Growth Drivers

Railways replacement demand

Revamping of cargo train systems has been carried out in the North American Market. It is either replacing certain parts or fully replacing the locomotives ranging to ~ 20,000 cargo trains. The yearly target of 800-900 trains is currently been in process. With PEL's increasing market share in the export market and its wide range of value-added products, we foresee huge potential in the North American market. Indian railways under multiple projects like Train 18, Vande Bharat, etc are spending on revamping the passenger train system. The replacement market of railways domestically and internationally is expected to be 5 times of the new locomotive market.

Renewable energy sector

India is one of the fastest-growing economies and is finding alternatives through renewable energy sources to meet its surging energy needs. GOI by FY30 plans to achieve a 500GW non-fossil fuel-based capacity through solar and wind power. On the international front, India is becoming a hub for sourcing machinery to cater to the South Asian countries' needs and export to the international market.

EV adoption

The Indian EV market is expected to grow at a CAGR of 49% in the next 3-5 years. Currently, the majority of motors used in the EV vehicles are imported, however, with the 'Make In India' belief and change in government norms for localised products, we believe a significant demand can be witnessed from the EV market. PEL's expertise in the motor manufacturing segment will play an upper hand and aid in incremental growth for the company. In FY22, penetration of electric 2-wheelers, 3-wheelers, passenger vehicles, commercial vehicles, E-Bus and ELCV stood at 4-6%, 5.4%, 0.6%, 4.8% and 0% respectively and in FY27 is expected to reach to 25-30%, 30-35%, 6-8%, 9-11% and 4-6% respectively.

Outlook & Valuation

We believe our recommendation is supported by a) PEL's robust Capex and capacity addition directly resulting in strong improvement in the company's order book, b) Increasing revenue contribution from value-added products (components), c) Upcoming merger with Pitti Castings resulting in improving ROE and ROCE (to 25.8% and 26.7% respectively) and improvement in operating margins (by 240bps to 16.2% by FY26). At the current CMP, the stock looks attractive at 14x 2 Yr-Fwd consensus PE. In view of the above-mentioned growth drivers, we value the company at 19x on FY26 earnings to arrive at a Target Price of Rs 915/share, implying an upside of 40% from the current levels.

Exhibit 21: 12-Month FWD PE Band chart

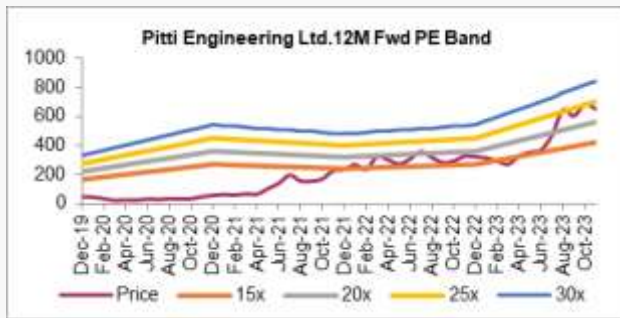
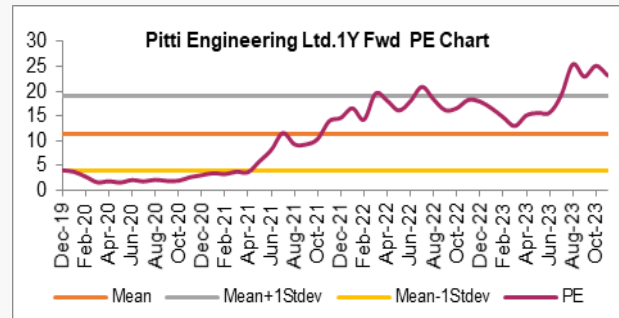


Exhibit 22: 1 YR FWD PE Band chart



Source: company, Axis Securities

Peer Comparison

PEL has superior revenue growth momentum as compared to Indian peers with robust execution capabilities with sustainable growth outlooks going ahead. The company also delivered **strong margin expansions** with cost optimization initiative, strong volume growth and richer product mix. Historically, PEL has **outperformed** its domestic peers on **operating margin front**. We believe PEL will **surpass growth** in terms of profitability and higher **CAGR earnings growth at 38% from FY23E to FY26E**.

Exhibit 23: Peer Comparison

Company Name	Revenue (Rs Cr)				Operating Profit (RS Cr)				Operating Profit Margin (%)				Profit After Tax (Rs Cr)			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
Pitti Engineering	525	518	954	1,100	78	78	132	151	14.8%	15.1%	13.8%	13.8%	17	29	52	59
Growth YoY(%)	-15.6%	-1.3%	84.1%	15.3%	-13.7%	0.4%	69.1%	14.7%					-27.9%	68.3%	80.3%	13.3%
Magcore Lamination India	110.5	131.5	300.8		11.9	13.2	25.1		11%	10%	8%		11.9	13.2	25.2	
Growth YoY(%)	-2.5%	19.0%	128.7%		-8.5%	10.9%	90.2%						-8.5%	10.9%	90.9%	
Tempel Precision Metal Products India Pvt. Ltd.	209.8	231.2	388		14.5	18.5	41.5		7%	8%	11%		7.1	9.7	27.3	
Growth YoY(%)	-9.5%	10.2%	67.7%		-23.7%	27.6%	124.3%						-39.3%	36.6%	181.4%	
Bagadia Chaitra Industries Pvt. Ltd.	93	105.4	237		3	7.7	15.4		4%	7%	6%		-3	1.8	6.8	
Growth YoY(%)	-4.5%	13.3%	125.0%		-56.6%	133.3%	100.0%						N.A.	-	169.2%	277.8%

Source: Company, Axis Securities.

Key Risks

- Slowdown in Capex activities:** Any delay in the company's Capex activities will result in opportunity loss as currently, the Indian economy is going through robust Capex activities and is focussing on railway, power generation and infrastructure development. PEL can lose orders if it doesn't cater to the speeding industry demand.
- Volatility in raw material prices:** Fluctuations in steel prices would impact margins as the company imports as well as locally sourced electro steel from three companies (Posco, JSW & China Steel)
- Geopolitical risks:** Increase in Russian-NATO tensions, Cyber attacks, US-China competition and other such tensions can disrupt global trade affecting demand and leading to volatility in inflation cycles. PEL's 1/3rd of revenue is accounted for from the export market. Such tensions can negatively impact a company's order book and profitability.
- Fund Raise:** Companies often opt for various financing options to support growth initiatives. Avenues like debt, equity and other financing instruments can be considered to explore capacity expansion in a strategic move of internal accruals prove insufficient.

Management Profile

Key Management Personnel	Experience
Mr. Sharad Pitti Chairman & Managing Director Since 1983	<ul style="list-style-type: none"> Mr. Sharad Pitti is the founder of the company with ~ 4 decades of industry experience.
Mr. Akshay Pitti Vice-Chairman & Managing Director. Since 2004	<ul style="list-style-type: none"> Mr. Akshay Pitti at an early age started his entrepreneurial journey where he served in different roles for the organisation.
Ms. Gayathri Ramachandran Non-Executive Independent Director Since 2014	<ul style="list-style-type: none"> Ms. Gayathri Ramachandran, IAS (Retd.) has held prominent positions in the Ministries of Power, Petroleum, Chemical & Fertiliser and Civil Aviation. She also has served as a Special Chief Secretary to the Government of Andhra Pradesh. She is the Chairperson of the Company's Stakeholders Relationship Committee.
Mr. G Vijaya Kumar Non-Executive Independent Director Since 2006	<ul style="list-style-type: none"> Mr. G Vijaya Kumar is a practising Advocate at the High Court of Telangana and has also served as a Government Pleader for revenue for the United State of Andhra Pradesh. He is the Chairman of the Company's Risk Management Committee.
Mr. M Gopalakrishna Non-Executive Independent Director Since 2007	<ul style="list-style-type: none"> Mr. M Gopalakrishna is a retired IAS officer who has held senior posts in the Government of Assam, Andhra Pradesh and the Government of India. He also served in the Central & State level public sector undertakings and retired as Chairman and Managing Director of Rural Electrification Corporation. He has over five decades of Administrative and Managerial experience. He is the Chairman of the Company's Nomination and Remuneration Commimajor.
Mr. N R Ganti Non-Executive Independent Director Since 2002	<ul style="list-style-type: none"> Mr. N R Ganti holds a PG in Business Administration and has rich experience in the field of finance and management. He started his career in the field of banking with the State Bank of India and later took up management consultancy services.
Mr. S Thiagarajan Non-Executive Independent Director Since 2015	<ul style="list-style-type: none"> Mr. S Thiagarajan holds a Chartered Accountant degree and has vast experience in financial management and accounting roles. He was the Director (Finance) of NMDC and also served as a Board Member of various associates of NMDC. He is the Chairman of the Company's Audit Committee.
Mr. Pavan Kumar Chief Financial Officer Since 2017	<ul style="list-style-type: none"> Mr. Pavan Kumar holds a Chartered Accountant degree. He earlier served as a General Manager of Finance for the Company.

Source: Company

Industry Overview

Indian Market

The total size of the Indian CRNO steel lamination market in FY19 stood at Rs 3,300 Cr and is expected to grow at a CAGR of 12% by FY27. Such strong growth is expected to be driven by the replacement railway demand, growth in the automotive and consumer durable industry and the Indian government's sharp focus on renewable energy segment.

Currently, total electric steel consumption in India is around 7 Lc tons and lamination output is 4 Lc tons where Pitti has a capacity of 72,000MT.

Exhibit 24: Indian CRNO Steel Lamination industry (in MT)



Source: Company, Bloomberg, Axis Securities

Exhibit 24: PEL raw material – Electrical steel lamination sheets (in MT)



Source: Company, Bloomberg, Axis Securities

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E Dec	FY23	FY24	FY25E	FY26E
Net Sales	1,100	1,201	1,351	1,588
Growth (%)	15.3	9.2	12.4	17.6
Other Operating Income	0	0	0	0
Total Income	1,100	1,201	1,351	1,588
Raw Material Expense	782	830	928	1,088
Employee Expense	85	94	101	114
Power & Fuel Expenses	11	10	13	17
Other Operating Expense	71	83	96	111
Operating Profit	151	184	212	258
Growth (%)	15	22	15	22
Operating Margin (%)	13.8	15.3	15.7	16.2
Other Income	18	43	35	35
EBITDA	169	227	247	293
Growth (%)	13.5	34.3	8.6	18.6
EBITDA Margin (%)	15.4	18.9	18.3	18.4
Depreciation	45	52	49	47
EBIT	125	175	198	246
Interest Cost	45	49	48	41
Profit Before Tax	80	126	150	205
Tax	21	33	37	51
Profit After Tax	59	93	112	154
Growth (%)	13.3	58.4	20.7	36.7
Share of Profit of an associate/OCI	0	0	0	0
Net Profit (Adjusted)	59	93	112	154
EPS	18	29	35	48

Source: company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E Dec	FY23	FY24e	FY25E	FY26E
SOURCES OF FUNDS				
Equity Share Capital	16	16	16	16
Reserves & Surplus	318	403	506	651
Net Worth	334	419	522	667
Borrowings	265	390	363	272
Other Liabilities	379	279	306	361
Total Liabilities	644	669	670	633
Total Equity & Liability	978	1087	1192	1301
APPLICATION OF FUNDS				
Cash & Bank Balance	65	13	16	43
Investments	15	15	15	15
Advances	68	68	68	68
Fixed & Other Assets	829	991	1093	1174
Total Assets	978	1087	1192	1301

Source: company, Axis Securities

Cash Flow
(Rs Cr)

Y/E Dec	FY23	FY24E	FY25E	FY26E
PBT	80	126	150	205
Depreciation & amortization	45	52	49	47
Interest expense	45	49	48	41
Interest / Dividend Recd	0	-43	-35	-35
Other Adjustments	1	0	0	0
(Inc)/Dec in working capital	87	-150	-40	-49
Tax paid	-35	-33	-37	-51
CF from operating activities	222	1	135	158
Capital expenditure	-105	-164	-84	-24
(Purchase) / Sale of Investments	0	0	0	0
Income from investments and others	1	43	35	35
CF from investing activities	-104	-121	-49	11
Inc/(Dec) in share capital	0	0	0	0
Inc/(Dec) in debt	-33	125	-26	-91
Dividends & Interest paid	-54	-58	-56	-49
Other Financial Activities	0	0	0	0
CF from financing activities	-86	67	-83	-141
Net cash flow	32	-52	3	28
Opening balance	35	65	13	16
Other Bank Balance	-2	0	0	0
Closing balance	65	13	16	43

Source: company, Axis Securities

Ratio Analysis
(x) / (%)

Y/E Dec	FY23	FY24E	FY25E	FY26E
Per share data				
No. of shares (Cr)	3.2	3.2	3.2	3.2
BVPS (INR)	104.2	130.6	162.9	208.2
CEPS (INR)	32.3	45.4	50.4	62.6
DPS (INR)	2.7	2.7	2.7	2.7
Financial Ratios				
RoE (%)	19.0	24.8	23.9	25.8
RoCE (%)	20.9	24.6	23.1	26.7
Debt/Equity (x)	0.8	0.9	0.7	0.4
EBIT/Interest (x)	2.8	3.6	4.1	6.0
Turnover Ratios				
Asset turnover (x)	1.8	1.5	1.5	1.7
Sales/Net FA (x)	2.8	2.4	2.5	3.1
Working capital/Sales (x)	0.1	0.2	0.2	0.2
Receivable days	59.4	60.4	61.4	62.4
Inventory days	110.3	95.3	97.3	99.3
Payable days	116.5	90.5	89.5	91.5
Working capital days	53.2	65.2	69.2	70.2
Liquidity Ratios				
Current ratio (x)	1.6	2.1	2.2	2.2
Quick ratio (x)	0.9	1.1	1.1	1.2
Interest cover (x)	3.3	4.0	4.4	5.9
Net debt/Equity (x)	0.6	0.9	0.7	0.3
Valuation (x)				
PE	35.6	22.5	18.6	13.6
PEG (x) YoY growth	2.7	0.4	0.9	0.4
P/BV	6.3	5.0	4.0	3.1
EV/EBITDA	15.0	13.3	11.4	8.9
EV/Sales	2.1	2.0	1.8	1.5
EV/EBIT	18.3	14.0	12.3	9.4

Source: company, Axis Securities

Pitti Engineering Price Chart and Recommendation History



Date	Reco	TP	Research
01-Dec-23	BUY	915	Initiating Coverage

Source: Axis Securities

About the analyst**Analyst:** Akshay Mokashe**Contact Details:** akshay.mokashe@axissecurities.in**Sector:** Capital Goods, Building Materials and Consumer Durables**Analyst Bio:** Akshay Mokashe is B.E Mechanical Engineer with ~ 5 years of experience in Equity Research**Disclosures:**

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