



The Trick Is To Spot Them At The Larval Stage

Pitti Engineering Limited (PEL) Engineered For Pretty Growth

Our Tiny Treasure for the month of September is Pitti Engineering Limited (PEL), a Hyderabad-based company, which was formerly known as Pitti Laminations. It is a leading manufacturer of electrical steel lamination, motor cores, sub-assemblies, die-cast rotors, press tools and machining of metal components. These products are used in any process engineering and have application in capital goods products like motors and alternators. It is set to become one-stop solutions provider supplying tooling, laminations, casting and machining, all under one roof.

PEL provides 3,000 different models of laminations, with the option of custom-made products which fulfils the needs of clients. Its total revenue comprises of domestic sales of 71% and balance 29% from exports. To meet the growing domestic and global demand for its products, the company has set up new facilities in Hyderabad and Aurangabad. The product mix of the company is strong, which adds to its topline growth. Its client base is wide and the repeat orders from the likes of GE Group makes its order book stronger. The pick-up in demand for the capital goods sector and the various government initiatives to boost manufacturing activities in India would be the growth drivers for PEL over the next 6-8 quarters.

Competitive edge over other players

There are very few players in India which belong to the electrical laminations or stampings industry. These companies supply laminations to domestic capital good manufacturers which manufacture motors and alternators. Thus, they have exposure to small size laminations in consumer durables segment. However, PEL is the only company which has exposure to the industrial segment too and manufactures customised products. It has a wide range of products from 50 mm to 1250 mm single piece electrical steel laminations, which helps the company to cater to customers' niche requirements. Also, it exports its products to countries like USA, Canada, Mexico, Brazil, Germany and Australia, which helps generate 29% of the total revenue.

Wide application across industries

PEL's products have applications across various sectors

such as power generation, transportation, mining, oil & gas, industrial motors, locomotives, aerospace, automobiles etc. Of these, the company generates revenue of 38.2% from power generation, 35.8% from industrial and 25.9% from transportation.

Government initiatives and contributing sectors

There are some specific sectors which would drive demand and growth for PEL. Recently, the government introduced new IE-3 energy efficiency norms which require production of new energy efficient motors. As PEL is already furnished with IE-5 standards, PEL has huge opportunity to manufactures and supply such motors. Under the transportation segment, electric vehicles (EV) and railways would drive PEL's growth. As the thrust towards energy-efficient products increases, the lamination business will grow, especially in the case of EVs as laminations are the core components of electric motors. As the EV segment picks up momentum, it will help the company to move to the next phase of growth. The new metro projects of Indian Railways would also require such products, which will help the company to grab the market. It also has wide scope for supplying products for making pumps to Siemens for lift irrigation scheme. Under power generation, it has commenced manufacturing of gear boxes for wind mills for Siemens.

Capacity additions

PEL has set up a plant at Hyderabad for machining activity whose commercial production started in August 2017. The capacity of the plant is 10,000 MT laminations. Also, it has set up a facility at Aurangabad and its operations started in January 2018. This facility will have both laminations and machining capabilities. As the facility is located near the raw material sources and the company's customers, the logistics and operational costs would reduce significantly. It has a capacity of 26,000 MT laminations. Through this Aurangabad facility, PEL would supply 1,000 tonnes per annum of small laminations to Crompton under the agreement, which might increase up to 3,000 tonnes over the next 2-3 years. Both these facilities will contribute significantly to the topline in the upcoming quarters.

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Long standing customer relationship

PEL has longstanding customer relationship with domestic and global companies like ABB, Suzlon, Alstom, Nidec Corporation, Voith, Siemens, Crompton Greaves, WEG Industries, L&T, Cummins, GE, Marathon Electric and many more. In mid-FY18, it bagged a contract from GE Group worth Rs 500 crore, and during its execution, the value of the project reached Rs 600 crore over ten years. Thus, the company will earn additional revenue of Rs 60 crore from GE every year for the next 10 years.

Debt position

As of March 31, 2018, the company's total debt was Rs 255.92 crore, which included Rs 88.68 crore of long-term debt and Rs 167.24 crore of short-term debt. Thus, for FY18, the total debt-to-equity ratio stood at 1.66x. Over the next two years, the company has no major capex plans and would focus on repayment of debt. It plans to pay off Rs 19-20 crore debt in FY19 and FY20, which would bring down the long-term debt to Rs 35 crore.

Financial Performance

FY18 delivered robust growth, with the revenue growing by

33.03% YoY to Rs 378.79 cr. The growth in revenue was on account of better product mix and good demand in domestic and global markets. Its EBITDA grew by 62.7% YoY to Rs 54.58 cr from Rs 33.5 cr. and the EBITDA margin stood at 14.48% as against 11.7% in FY17. The PAT jumped by 161.7% to Rs 11.28 cr from Rs 4.31 cr.

The company's revenue rose by 31.9% YoY from Rs 99.2 cr to Rs 130.9 cr in Q1FY19. The EBITDA for the quarter increased by 51.7% YoY to Rs 18.9 cr from Rs 12.4 cr. and the EBITDA margin improved from 13.6% in Q1FY18 to 14.49% in Q1FY19. The PAT jumped by 61.8% YoY from Rs 2.49 to Rs 4.03., while the PAT margin stood at 3.09% as against 2.52% in corresponding quarter of the previous year.

Valuation

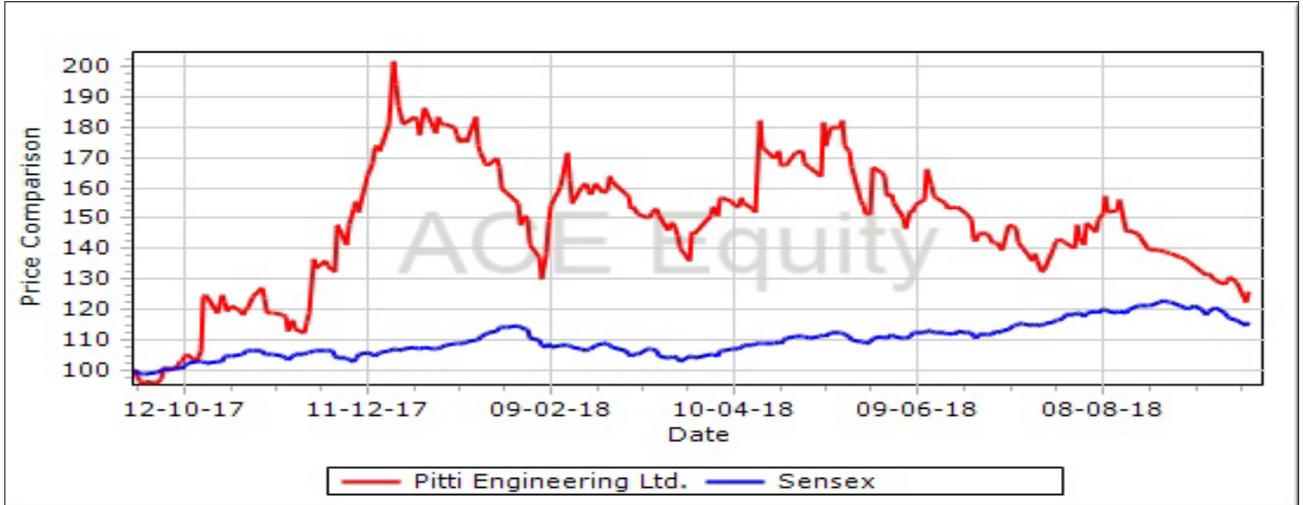
The company is trading at TTM P/E of 16.8x with TTM EPS of Rs 4.30. For FY18, it delivered ROE and ROCE of 8.6% and 11.36%, respectively. We see the pick-up in capital goods and manufacturing sectors would drive the demand for company's products. The new capacity additions would contribute significantly to the top-line. The demand from global market is strengthening its exports. Considering all these factors, we urge investors to **BUY** the scrip with target price of Rs 92.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	380.32	285.90	311.49	341.04	247.83
Total Income	383.27	291.03	313.50	342.74	249.79
Total Expenditure	325.74	252.36	292.46	300.52	215.12
PBIDT	57.53	38.67	21.04	42.23	34.67
PAT	11.28	4.31	-9.56	9.33	4.21
Dividend %				20.00	10.00
Adj. EPS(Rs)	3.78	1.60	-3.54	3.46	1.56

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	130.55	126.92	2.86	98.87	32.04
Total Expenditure	111.64	108.32	3.06	86.41	29.20
PBIDT (Excl OI)	18.91	18.60	1.68	12.46	51.76
PAT	4.03	2.78	44.90	2.49	62.14
PBIDTM% (Excl OI)	14.49	14.65	-1.09	12.60	15.00
PBIDTM%	14.82	15.81	-6.26	13.03	13.74
PATM%	3.09	2.19	41.10	2.52	22.62
Adj. EPS(Rs)	1.35	0.93	45.16	0.92	46.74



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