BUY (Maintained)

CMP: **INR 11,569** Target Price: **INR 20,070** ▲ 73%

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20 December 2024

India | Equity Research | Company Update

PTC Industries

Defence

Adding capabilities

PTC Industries (PTC) announced the completion of its acquisition of Trac Precision Solutions Ltd. (Trac). Trac's advanced machining technology in our expectation will complement PTC's capabilities in titanium and superalloys castings. Thus, in our view, PTC would be able to offer complete solutions to its customers while exercising full control over the manufacturing process of complex castings, including aerofoils. Further, we believe that the acquisition plugs a critical gap in engine-manufacturing technology in India, which may have a profound impact on the indigenisation drive. We maintain **BUY** on PTC with a DCF-based unchanged TP of INR 20,070. The stock is trading at 37.4x FY27E EPS.

What the Trac acquisition brings to the table?

Trac's manufacturing infrastructure includes advanced 5-axis and 3-axis CNC grinding capabilities, electro-discharge machining (EDM), deep hole drilling, fusion welding, airflow testing and surface treatment technologies, supported by its own internal tooling manufacture. Trac's core competency is in manufacturing high-value, complex components such as high-pressure and low-pressure turbine blades, nozzle guide vanes, heat shields and seal segments for aero engines, industrial gas turbines, and defence systems, catering to the major OEMs and engine programmes globally, including Rolls Royce, Safran and Siemens. Trac reported revenue of GBP 24.8mn in CY23. We expect the full financial impact of acquisition to reflect in FY26.

Plugs a critical technological gap in engine manufacturing

PTC has already developed the technology for advanced superalloys castings, including single crystal, directionally solidified, and equi-axed blades and vanes for aero engine, industrial gas turbine, and defence applications. The acquisition of Trac would enable PTC to offer an end-to-end solution – from alloy development to precision machined, ready to fit components. In our view, some of Trac's capabilities, such as EDM and fusion-welding, are unique and available with only a handful of companies. Hence, this is likely to plug the critical gap in engine manufacturing in India and would dovetail into the upcoming MRO opportunities and engine infrastructure in domestic market.

Financial Summary

Y/E March (INR mn)	FY24A	FY25A	FY26E	FY27E
Net Revenue	2,569	4,113	7,499	17,120
EBITDA	726	1,066	1,891	5,959
EBITDA Margin (%)	28.3	25.9	25.2	34.8
Net Profit	422	788	1,238	4,446
EPS (INR)	29.2	52.6	82.7	296.9
EPS % Chg YoY	51.5	80.0	57.2	259.0
P/E (x)	395.7	219.9	139.9	39.0
EV/EBITDA (x)	238.7	159.2	90.8	28.9
RoCE (%)	7.8	6.7	8.6	24.4
RoE (%)	11.3	9.9	10.3	26.9

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Market Data

Market Cap (INR)	173bn
Market Cap (USD)	2,044mn
Bloomberg Code	PTCIL IN
Reuters Code	PCIN.BO
52-week Range (INR)	15,702 /5,440
Free Float (%)	34.0
ADTV-3M (mn) (USD)	2.5

Price Performance (%)	3m	6m	12m
Absolute	(18.9)	(7.6)	92.7
Relative to Sensex	(18.0)	(14.6)	74.7

ESG Score	2022	2023	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

16-11-2024: Q2FY25 results review
25-10-2024: Initiating Coverage

Outlook: Marching ahead in technology

We believe that the acquisition of Trac adds significant capabilities at the upper end of technical spectrum. While this complements the existing titanium and superalloy castings, produced by the PTC, we are upbeat on the critical technological gap it bridges in the domain of engine infrastructure and enhances the capability of the country in an area, which could have far-reaching impact on competitive advantage of domestic defence platforms. We maintain **BUY** on PTC stock with an unchanged TP of INR 20,070 on the DCF-based methodology.

Key risks

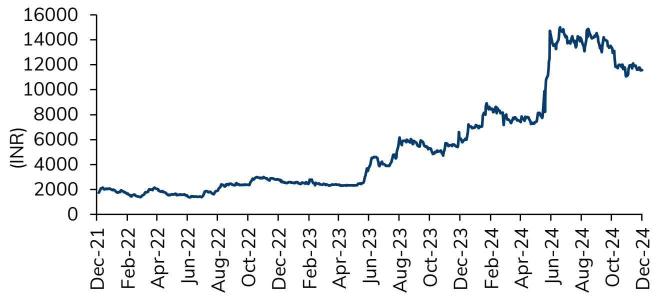
- Dependence on exports
- Delay in commissioning of new capacity
- (Low) Competition from established international players
- Development of products entails a lengthy and expensive process
- High level of working capital currently

Exhibit 1: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	60.2	60.2	59.8
Institutional investors	29.9	29.9	9.5
MFs and others	25.2	24.3	3.8
FIs/Banks	0.1	1.2	0.9
Insurance	1.6	0.2	0.0
FIIs	3.0	3.8	4.8
Others	9.9	10.3	30.7

Source: Bloomberg, I-Sec research

Exhibit 2: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Net Sales	**2,569**	**4,113**	**7,499**	**17,120**
Operating Expenses	1,225	1,782	3,054	5,963
EBITDA	**726**	**1,066**	**1,891**	**5,959**
EBITDA Margin (%)	28.3	25.9	25.2	34.8
Depreciation & Amortization	166	237	412	562
EBIT	560	829	1,479	5,397
Interest expenditure	152	134	130	130
Other Non-operating Income	134	315	199	155
Recurring PBT	**541**	**1,010**	**1,548**	**5,421**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	119	223	310	976
PAT	422	788	1,238	4,446
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**422**	**788**	**1,238**	**4,446**
Net Income (Adjusted)	**422**	**788**	**1,238**	**4,446**

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Total Current Assets	4,155	8,677	7,451	11,438
of which cash & cash eqv.	1,578	5,492	3,545	2,813
Total Current Liabilities & Provisions	412	628	802	2,282
Net Current Assets	**3,743**	**8,048**	**6,649**	**9,156**
Investments	18	18	18	18
Net Fixed Assets	2,302	3,230	6,318	8,756
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,587	3,922	3,422	2,922
Total Intangible Assets	9	9	9	9
Other assets	886	886	886	886
Deferred Tax Assets	-	-	-	-
Total Assets	**8,545**	**16,113**	**17,302**	**21,747**
Liabilities				
Borrowings	**1,819**	**1,600**	**1,550**	**1,550**
Deferred Tax Liability	**177**	**177**	**177**	**177**
provisions	11	11	11	11
other Liabilities	81	81	81	81
Equity Share Capital	144	150	150	150
Reserves & Surplus	6,312	14,094	15,332	19,778
Total Net Worth	**6,456**	**14,244**	**15,482**	**19,928**
Minority Interest	-	-	-	-
Total Liabilities	**8,545**	**16,113**	**17,302**	**21,747**

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	554	724	469	724
% growth (YOY)	(2.6)	16.4	(34.5)	25.8
EBITDA	154	219	100	212
Margin %	27.7	30.2	21.4	29.3
Other Income	36	41	37	84
Extraordinaries	-	-	-	-
Adjusted Net Profit	81	147	49	173

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Operating Cashflow	**(963)**	**768**	**1,232**	**1,898**
Working Capital Changes	(1,634)	(391)	(548)	(3,240)
Capital Commitments	(648)	(3,500)	(3,000)	(2,500)
Free Cashflow	**(1,610)**	**(2,732)**	**(1,768)**	**(602)**
Other investing cashflow	**43**	**-**	**-**	**-**
Cashflow from Investing Activities	(604)	(3,500)	(3,000)	(2,500)
Issue of Share Capital	2,956	7,000	-	-
Interest Cost	(134)	(134)	(130)	(130)
Inc (Dec) in Borrowings	22	(219)	(50)	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	2,841	6,647	(180)	(130)
Chg. in Cash & Bank balance	**1,274**	**3,915**	**(1,948)**	**(732)**
Closing cash & balance	1,343	5,258	3,310	2,578

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	29.2	52.6	82.7	296.9
Adjusted EPS (Diluted)	29.2	52.6	82.7	296.9
Cash EPS	40.7	68.4	110.2	334.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	447.1	951.4	1,034.1	1,331.1
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	17.2	60.1	82.3	128.3
EBITDA	23.9	46.8	77.4	215.1
EPS (INR)	51.5	80.0	57.2	259.0
Valuation Ratios (x)				
P/E	395.7	219.9	139.9	39.0
P/CEPS	283.9	169.0	104.9	34.6
P/BV	25.9	12.2	11.2	8.7
EV / EBITDA	238.7	159.2	90.8	28.9
P / Sales	67.4	42.1	23.1	10.1
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	76.0	69.3	65.9	69.6
EBITDA Margins (%)	28.3	25.9	25.2	34.8
Effective Tax Rate (%)	22.0	22.0	20.0	18.0
Net Profit Margins (%)	16.4	19.2	16.5	26.0
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.0	(0.3)	(0.1)	(0.1)
Net Debt / EBITDA (x)	0.3	(3.7)	(1.1)	(0.2)
Profitability Ratios				
RoCE (%)	7.8	6.7	8.6	24.4
RoE (%)	11.3	9.9	10.3	26.9
RoIC (%)	8.9	9.0	11.6	31.3
Fixed Asset Turnover (x)	0.7	1.1	1.4	2.1
Inventory Turnover Days	124	156	137	182
Receivables Days	185	148	109	119
Payables Days	26	46	42	77

Source Company data, I-Sec research

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