

IPO NOTE



INTERARCH BUILDING PRODUCTS LIMITED
Date: 16.08.2024



- ◆ Incorporated in 1983, Interarch Building Limited is a leading provider of turnkey pre-engineered steel construction solutions in India. The company offers integrated facilities for design, engineering, manufacturing, and on-site project management for the installation and erection of pre-engineered steel buildings (PEB).
- ◆ As of March 31, 2023, the company had the second-highest total installed capacity of 141,000 metric tonnes per year. In the financial year 2023, it also held a 6.1% market share in operating income among integrated PEB players in India.
- ◆ The company offers PEBs through pre-engineered steel building contracts ("PEB Contracts") and the sale of pre-engineered steel building materials ("PEB Sales"), including metal ceilings, corrugated roofing, PEB steel structures, and light gauge framing systems.
- ◆ The company's industrial/ manufacturing construction category customers include Grasim Industries Limited, Berger Paints India Limited, Blue Star Climatech Limited, Timken India Limited, and Addverb Technologies Limited. The company has four manufacturing facilities out of which two are situated in Sriperumbudur, Tamil Nadu one in Pantnagar, Uttarakhand and one in Kichha, Uttarakhand.
- ◆ The company has sales and marketing employees in Chandigarh, Punjab, and Haryana; Lucknow, Uttar Pradesh; Coimbatore, Tamil Nadu; Bhubaneswar, Odisha; and Raipur, Chhattisgarh.
- ◆ As of September 30, 2023, the company has 111 qualified structural design engineers and detailers in its in-house design and engineering team.
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Objects of the Offer-

- ◆ Financing capital expenditure for the new PEB manufacturing unit (Phase 2) at the Andhra Pradesh facility.
- ◆ Upgrading Kichha, Tamil Nadu I & II, and Pantnagar manufacturing facilities.
- ◆ Investing in IT assets to upgrade existing infrastructure.
- ◆ Funding incremental working capital needs.
- ◆ Allocating funds for general corporate purposes.

Issue Details

Price Band (in ₹ per share)	850-900
Issue size (in ₹ Crore)	578.05-600.29
Fresh Issue (in ₹ Crore)	200.00
OFS (in ₹ Crore)	378.05-400..29
Issue open date	19.08.2024
Issue close date	21.08.2024
Tentative date of Allotment	22.08.2024
Tentative date of Listing	26.08.2024
Total number of shares (lakhs)	68.03-66.72
No. of shares for QIBs (50%) (lakhs)	33.89-33.24
No. of shares for NII (15%) (lakhs)	10.17-9.97
No. of shares for S-HNI (33%)(lakhs)	3.39-3.32
No. of shares for B-HNI (66%)(lakhs)	6.78-6.65
No. of shares for retail investors (35%) (lakhs)	23.72-23.27
No of shares for Employee Reservation (lakhs)	0.26-0.25
Minimum order quantity	16
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	13600-14400
Maximum no. of shares for Retail investors at Lower Band	224 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	208 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	190400-187200
Minimum no. of shares for sHNI (2 Lakhs) at upper band	224 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	1104 (69 lots)
Minimum number of shares for bHNI at upper band	1120 (70 lots)
Exchanges to be listed on	BSE, NSE

Promoters

- ARVIND NANDA
- GAUTAM SURI
- ISHAAN SURI
- VIRAJ NANDA

Brief Financials

PARTICULARS (Rs. Cr)*	FY24	FY23	FY22
Share Capital^^	14.41	15.00	15.00
Net Worth	387.50	343.79	262.64
Total Income	1293.30	1123.92	834.94
EBITDA	113.01	106.38	32.88
EBITDA Margin (%)	8.74	9.47	3.94
Profit/(Loss) After Tax	86.26	81.46	17.13
EPS (in Rs.)	58.68	54.31	11.42
Net Asset Value (in Rs.)	268.80	229.19	175.09
Total Borrowing	10.20	11.38	3.36
P/E#	15.34	NA	NA
P/B#	3.35	NA	NA

*#Calculated at upper price band * Restated consolidated *financials* ^^the Company bought back 5,84,708 equity shares for an aggregate amount of INR 390.00 million being 3.90% of the total paid up equity share capital at price of INR 667 per equity share. The equity shares bought back were extinguished on September 25, 2023

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	834.94	1123.93	1293.30
Other income	5.91	12.47	13.01
Total income	840.86	1136.39	1306.32
YoY Growth (%)	-	35.15%	14.95%
Employee benefit expenses	89.22	93.36	118.97
Employee Expenses-% of Revenue	11%	8%	9%
Cost of raw material and components consumed	569.44	742.73	829.04
Cost of Material-% of Revenue	68%	65%	63%
Changes in inventories of finished goods and work in progress	-4.59	-10.25	-5.28
Other expenses	147.99	191.70	237.56
EBIDTA	32.89	106.38	113.02
EBIDTA Margin (%)	3.94%	9.47%	8.74%
Depreciation and amortisation expense	11.76	7.30	7.98
EBIT	21.13	99.08	105.04
EBIT Margin (%)	2.53%	8.82%	8.12%
Finance cost	4.46	2.60	2.16
Profit before tax	22.59	108.95	115.89
Tax expenses			
Current tax	9.28	23.23	29.89
Adjustment of income tax relating to earlier years (net)	0.16	0.53	-0.07
Deferred tax (credit)/charge	-3.85	4.20	-0.19
Deferred tax (credit) for earlier year	-0.13	-0.47	
Total tax expenses	5.46	27.49	29.63
Profit for the year	17.13	81.46	86.26
PAT Margin (%)	2.05%	7.25%	6.67%
Earnings per share			
Basic & Diluted	11.42	54.31	58.68

Cashflow Statement

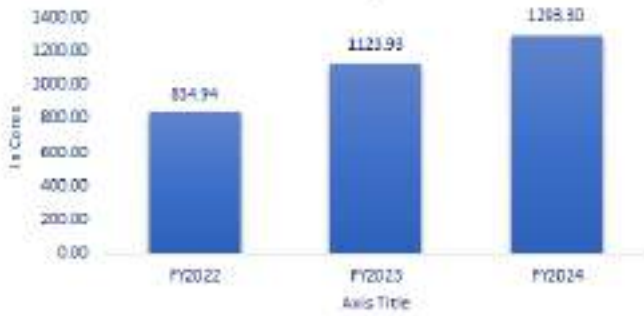
Particulars (In Crores)	FY2024	FY2023	FY2022
Cash generated from operating activities	111.86	51.06	34.21
Income tax paid (net of refunds)	30.34	19.78	8.03
Net cash generated from operating activities	81.52	31.29	26.18
Net cash used in investing activities	-32.76	-18.99	9.08
Net cash used in financing activities	-45.85	6.26	-0.14
Net increase/ (decrease) in cash and cash equivalents	2.91	18.56	35.12
Cash and cash equivalent as at 1 April	58.66	40.11	4.99
Cash and cash equivalent as at year end	61.58	58.66	40.11

Balance Sheet

Particulars (In Crores)	FY2024	FY2023	FY2022
Assets			
Non-current assets			
Property, plant and equipment	106.37	103.92	99.04
Capital work in progress	12.68	-	-
Investment properties	2.77	2.84	3.08
Intangible assets	0.19	0.04	0.13
Right to use asset	56.54	53.58	52.61
Financial assets			
Investment	5.36	5.01	0.01
Trade receivables	48.13	38.37	27.95
Loans	0.45	-	-
Other financial asset	2.79	1.60	4.07
Non current tax asset (net)	2.40	1.88	1.39
Other non-current assets	2.71	4.08	1.94
Total non-current assets	240.38	211.31	190.21
Current assets			
Inventories	146.84	136.98	134.13
Contract assets	35.25	27.93	21.25
Financial assets			
Trade receivables	170.75	158.71	85.70
Cash and cash equivalent	61.58	58.66	40.11
Bank balances other than cash and cash equivalent	76.13	60.54	51.65
Loans	0.62	0.28	0.34
Other financial assets	1.42	1.02	1.18
Current tax assets (net)	-	-	5.60
Other current asset	22.04	19.60	13.59
Total Current Assets	514.63	463.72	353.55
Total assets	755.01	675.03	543.75
Equity and liabilities			
Equity			
Equity share capital	14.42	15.00	15.00
Other equity			
Equity contribution	3.13	0.85	0.43
Capital redemption reserve	0.59	-	-
Securities premium	91.50	91.50	91.50
General reserve	18.18	56.59	56.59
Retained earnings	316.82	235.34	154.80
Total equity	444.63	399.28	318.32
Liabilities			
Non-Current liabilities			
Financial liabilities			
Borrowings	0.64	1.11	1.02
Lease liabilities	2.68	5.78	4.15
Government grants	0.04	0.06	0.07
Employee defined benefit obligation (net)	1.11	9.06	19.75
Deferred tax liabilities (net)	5.72	5.89	2.47
Total Non-Current liabilities	10.20	21.89	27.46
Current liabilities			
Contract liabilities	116.39	106.03	87.59
Financial liabilities			
Borrowings	9.56	10.28	2.34
Lease liabilities	0.51	0.57	0.34
Trade payables			
Total outstanding dues of micro and small enterprises	10.81	9.07	7.34
Total outstanding dues of creditors other than micro and small enterprises	122.75	94.59	73.12
Other financial liabilities	17.15	11.86	11.10
Provision	1.68	1.38	1.16
Government grants	0.02	0.02	0.02
Employee defined benefit obligation (net)	11.95	8.00	1.54
Other current liabilities	9.38	12.07	12.30
Liabilities for current tax (net)	-	-	1.13
Total Current liabilities	300.19	253.86	197.98
Total liabilities	310.38	275.75	225.44
Total equity and liabilities	755.01	675.03	543.75

Performance

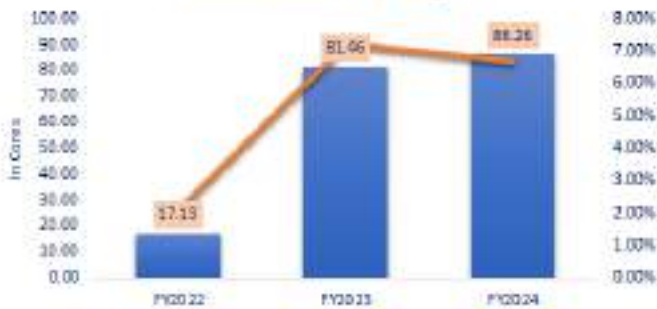
Revenue shows steady growth of 24% CAGR-2 yr



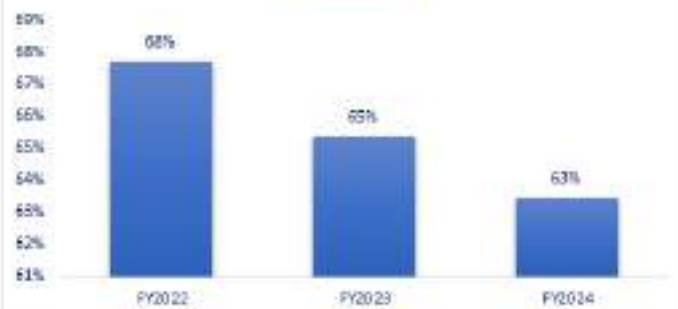
EBIDTA grew by 85% in terms of 2 yr CAGR with steady EBITDA Margin



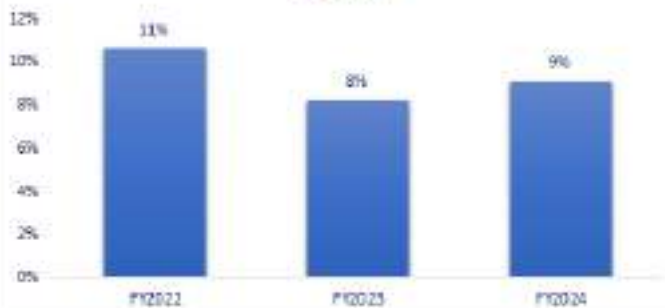
PAT grew by 124% in terms of 2 yr CAGR with stable PAT Margin



Cost of Material-% of Revenue is in downtrend



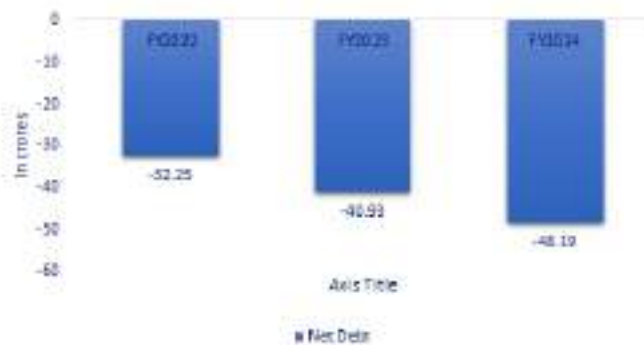
Employee expense as % of Revenue is steady



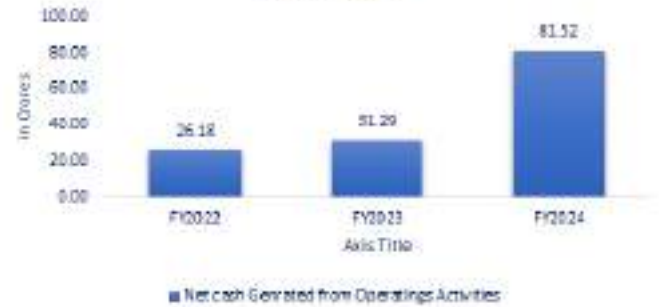
Strong Return Ratios (%)



Net Debt free Company



Strong Cash flow from Operating Activities



Industry Review

- ◆ Finished steel consumption grew from 91 million tonne (MT) in Financial Year 2018 to 136 MT in Financial Year 2024 owing to strong demand from allied sectors and the government's capital spending drive. However, demand had declined in Financial Year 2021 to 95 MT from 100 MT in Financial Year 2020 following the onset of the pandemic.
- ◆ India's consumption of finished steel products accounted for 7.6% of global consumption in calendar year 2023, up from 4.8% in calendar year 2013. On the other hand, the share of the European Union, Japan and North America in global finished steel product consumption decreased in calendar year 2023 over calendar year 2012. However, India still trails China, which accounted for 50.8% of finished steel product consumption in calendar year 2023 vs 48% in calendar year 2013, suggesting scope for improvement.
- ◆ Foreign Direct Investment "FDI" plays an important role in propelling India's economic growth and development, particularly in the construction sector. Currently, key construction (development) projects, including townships, residential and commercial premises, roads, bridges, hotels, hospitals, educational institutions, recreational facilities, and city and regional-level infrastructure are open to 100% FDI through the automatic route. Moreover, FDI limits for real estate projects within Special Economic Zones (SEZ) and industrial parks have been raised to 100% in the construction sector through the automatic route.
- ◆ The aggregate budgetary support for capital expenditures (including capital outlay, grants for capital creation, and internal and external budgetary resources) has received a significant boost in Financial Year 2024, reaching ₹ 18.6 trillion. This marks a substantial 28% increase compared with the estimates of the Financial Year 2023E.
- ◆ Industrial/manufacturing construction includes manufacturing plants, factories, power plants, and other highly specialised facilities. Infrastructure construction includes warehouses, bridges, dams, roads, airports, canals, etc. and building construction includes constructing buildings for residential uses such as houses, residential towers, etc. as well as non-commercial buildings like hospitals, educational institutions as well as buildings for commercial use such as offices, retail malls, etc.
- ◆ Moving forward, Construction sector is projected to grow at 7-9% in Financial Year 2025 with major contribution by infrastructure sector given the rising investments and focus by central and state government capex coupled with schemes such as NIP, NMP and Gati shakti initiatives on a rising pace.
- ◆ Infrastructure investments are seen growing faster than the other two sectors due to the government's focus under the National Infrastructure Pipeline (NIP), National Monetization Pipeline (NMP) and the Gati Shakti initiatives. Total construction investments in this sector is expected to attract investments of ~₹51-53 trillion between Financial Years 2025-2029P, up from ₹29-31 trillion between Financial Years 2020 to 2024.
- ◆ Similarly, construction capex in irrigation is expected to improve over the long term due to the low penetration of Irrigation in the country. Construction spend in irrigation is projected to rise to ₹ 5.5-6 trillion over Financial Years 2025-2029 from ₹3.8 trillion over the Financial Years 2020-2024 owing to the push from state governments to increase irrigation penetration in states.
- ◆ Robust demand is anticipated from third-party logistics (3PL) providers, particularly in sectors such as electronics, white goods, retail, and fast-moving consumer goods (FMCG). These sectors are leveraging 3PL services to optimise inventory management and reduce costs. Overall, the annual demand in warehousing, driven by ecommerce and 3PL end-use sectors, is expected to contribute significantly, accounting for 55-60% of the overall demand.



Competitive Strengths of the Company

Market position and established brand presence in the growing pre-engineered steel building industry in India

- ◆ They were ranked third in terms of operating revenue from PEB business in the Financial Year 2024 among integrated PEB players in India. (Source: CRISIL Report) Their Company further had the second largest aggregate installed capacity of 141,000 MTPA as at March 31, 2024 and a market share of 6.5% in terms of operating income in Financial Year 2024 among integrated PEB players in India.

Significantly integrated manufacturing operations, backed by in-house design and engineering, on-site project management, and sales and marketing capabilities

- ◆ Their manufacturing operations are vertically integrated to a significant extent, enabling their presence across the product lifecycle of PEBs, from estimation, designing, engineering, and fabrication of PEBs in completely knockdown condition at their Manufacturing Facilities, to supply and on-site project management of the installation and erection of PEBs at the site of the customer.
- ◆ They primarily manufacture their PEBs at four Manufacturing Facilities – two in Uttarakhand, India and two in Sriperumbudur, Tamil Nadu, India, providing them with manufacturing presence in Northern India and Southern India, respectively.

Demonstrated track record of execution backed by on-site project management capabilities

- ◆ Project management expertise is a pivotal factor in the evaluation of PEB suppliers as the construction industry is usually characterized by time-consuming projects.
- ◆ They rely on their in-house project supervision, on-site project management capabilities for the erection and installation of PEBs supplied by them at their customers' sites to gain a competitive advantage in terms of quality, cost and delivery parameters.

Demonstrated financial performance and status of their order book

- ◆ They have experienced growth in certain financial indicators during the Financial Years ended March 31, 2022, March 31, 2023, and March 31, 2024, which they attribute in part to their continuing focus on operational efficiency, customer outreach and other sales and market initiatives, improvement in capacity utilization, growth of their order book and increase presence across India, and resultant economies of scale.
- ◆ Such demonstrated growth in their financial performance in recent years, positions them for future growth and further diversification of their customer base and offerings. Their balance sheet and positive operating cash flows coupled with low levels of debt enable them to fund their strategic initiatives, pursue opportunities for growth and better manage unanticipated cash flow variations.
- ◆ Their financial condition is also determinant of their access to performance guarantees, which are critical to their business in the ordinary course.

Experienced and qualified Promoters and management team

- ◆ Their business and operations are led by an experienced management team and Board of Directors, who come from diverse backgrounds with experience in various fields such as sales and marketing, order management, design and engineering, purchase, operations, human resources and finance.
- ◆ They benefit from the industry experience, vision and guidance of their Promoters, Arvind Nanda who is their Managing director, Gautam Suri who is a Whole-time Director of their Company and Viraj Nanda and Ishaan Suri who are Non-Executive Directors of their Company, and have been critical in building their brand and growing their operations.

Risk Factors

Their profitability depends on stable, affordable raw materials; disruptions or price volatility may harm them financially.

- ◆ Their cost of raw materials and components consumed which primarily consists of steel in various descriptions and thickness, including hot rolled steel plates, galvanized steel coils, galvalume steel coils, hot rolled steel sections constitutes a significant portion of their total expenses.
- ◆ Steel, which is the key raw material for the manufacturing of their products, is a commodity and is subject to fluctuation in commodity prices. Due to high dependence on 31 steels, the ability of players in the PEB industry to tackle challenges related to input costs and working capital becomes crucial to the PEB industry's success.

Relying on few suppliers without long-term agreements risks disruptions in raw material supply, potentially harming their business and finances.

- ◆ They depend on a limited number of third-party suppliers for supply of raw materials required in their production process which subjects them to concentration risk. They do not have continuing arrangements for the supply of raw materials and rely on purchase orders which set out the terms and conditions in relation to quantity, pricing, scheduling and delivery details.
- ◆ Steel is their key raw material and finding readymade substitute suppliers for supplying the raw materials, including steel, of exact specifications and on terms and conditions acceptable to them may be difficult.

Their customers lack long-term contracts, risking order cancellations, modifications, or payment defaults, which could severely impact their cash flow, revenues, and earnings, especially since repeat orders constituted a significant portion of their revenue in recent years.

- ◆ They do not have any long-term or continuing agreements with their customers or customer groups and rely on purchase orders issued by their customers from time to time, that set out the terms of their PEB Contracts or PEB Sales for each order.

Outsourcing key operations like security and manufacturing to third parties risks service failures that could negatively impact their business and finances.

- ◆ They also outsource certain aspects of their operations, such as security guard services for their Manufacturing Facilities and enter into agreements with such security service providers. Any kind of disassociation or default on contractual obligations or termination of such security service contracts could have an adverse impact on their business.
- ◆ They undertake a portion of their PEB production by way of outsourced manufacturing on a job work basis to third party manufacturers. While they have quality assurance systems and infrastructure in place to allow them to meet the different standards required by their customers, they have no direct control over their job workers which they outsource.

Peer Comparison

Name of the company	Revenue from Operations (in Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Interarch Building Products Limited	1293.30	10.00	58.68	268.80	22.26	15.34	3.35
Everest Industries Limited	1575.45	10.00	11.42	378.37	3.01	92.68	2.80
Pennar Industries Limited	3130.57	5.00	7.29	65.02	11.21	24.58	2.76

*P/E & P/B ratio based on closing market price as of August 12th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24



Our Views

- ◆ Interarch Building Products Limited has demonstrated a robust revenue growth trajectory, with a compounded annual growth rate (CAGR) of 24.5% over the last three years. The company's revenue increased from ₹840.86 crore in FY2022 to ₹1,306.32 crore in FY2024, reflecting a strong demand for its products and services.
- ◆ The company's order book as of April 1, 2024, stands at an impressive ₹1,150 crore. This substantial order book, which covers 8 to 9 months of work, underscores the company's strong market position and visibility in revenue generation for the upcoming quarters.
- ◆ The company has significantly improved its profitability, with PAT increasing from ₹17.13 crore in FY2022 to ₹86.26 crore in FY2024. This positions Interarch as the second-largest company in its segment, highlighting its efficiency in converting revenue into profit.
- ◆ Interarch's EBITDA margin has seen a remarkable improvement, increasing from 3.9% in FY2022 to 8.7% in FY2024.
- ◆ The company is focused on expanding its production capacity by investing in CAPEX to set up and upgrade its current facilities. This expansion is expected to further enhance the company's ability to meet growing demand and increase its market share.
- ◆ The company has successfully executed high-value projects, including a ₹400 crore contract for constructing five factories for Birla Opus (Grasim Industries). This demonstrates their capability to handle large-scale, complex projects, which can attract more significant contracts in the future.
- ◆ According to a CRISIL report, the market size for the industry in which Interarch operates is expected to double from ₹19,500 crore to ₹39,000 crore. The company is well-positioned to capitalize on this growth opportunity, given its expanding capacity and strong order book.
- ◆ The company serves a diverse range of industrial and infrastructure clients, including Grasim Industries Limited, Berger Paints India Limited, Blue Star Climatech Limited, and InstaKart Services Private Limited. This diversified client base reduces dependency on any single customer and spreads the risk.
- ◆ Interarch offers pre-engineered buildings (PEBs) through contracts and sales of steel building materials. This dual approach allows the company to cater to both project-based contracts and direct material sales, providing flexibility in revenue generation.
- ◆ With a focus on industrial/manufacturing construction and infrastructure construction, Interarch is strategically placed to benefit from the ongoing industrialization and infrastructure development in India.
- ◆ Interarch maintains low debt levels with total borrowings at ₹10.20 crore in FY2024, down from ₹11.38 crore in FY2023. This prudent financial management minimizes interest costs and enhances profitability.
- ◆ With a P/E ratio of 15.34x and a P/B ratio of 3.35x, Interarch's valuation is reasonable when compared to its peers, considering its growth prospects and strong financial performance.
- ◆ Given its strong financial performance, strategic positioning in a growing market, robust order book, company's focus on high-margin projects and capacity expansion further strengthens its growth potential.

Hence, We recommend to **SUBSCRIBE** the IPO for long-term gains.

Sources: Company website and red herring prospectus

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