

Retail Research	IPO Note
Sector: Building Products	Price Band (Rs): 850 - 900
16th August 2024	Recommendation: Subscribe for Long Term

Interarch Building Products Limited

Company Overview:

Interarch Building Products Ltd. is one of the leading turnkey pre-engineered steel construction solution providers in India with integrated facilities for design and engineering, manufacturing, on-site project management capabilities for the installation and erection of pre-engineered steel buildings (PEB). In the FY23 the company ranked third in terms of operating revenue from PEB business amongst the integrated PEB players in India. With the integrated capacity of 1,41,000 MTPA, it is the second largest company amongst the integrated players in India along with the market share of 6.5% in terms of operating income during FY24.

Key Highlights:

1. PEB product offering: (a) Pre-engineered steel building contracts (PEB Contracts), wherein it provides complete PEBs on a turnkey basis to the customers, and as a part of which the company also provides on-site project management expertise for the installation and erection of PEBs at customers sites (b) Sale of pre-engineered steel building materials (PEB Sales), which includes (i) sale of metal ceilings & corrugated roofing, metal roofing & cladding systems and permanent/metal decking (lost shuttering) over steel framing. (ii) Supply of PEB steel structures includes primary and secondary framing systems, as well as complete PEBs. These PEBs are for non-industrial use, such as farmhouses and residential buildings, and are meant for erection and installation by third-party builders/erectors. (iii) light gauge framing systems (LGFS) that is composite PEB structures.

2. Robust manufacturing facility with strong order book: The company primarily manufactures products in-house at its four manufacturing facilities (two facilities in Tamil Nadu and two facilities in Uttarakhand). As of Mar'24, the company has an aggregate installed capacity of 1,41,000 MTPA. The company plans to add two more manufacturing facilities (Andhra Pradesh, Phase 1 and Phase 2) with additional capacity of 60,000 MTPA, taking the total capacity to 2,01,000 MPTA. As of Mar'24, the company's order book stands at Rs 1,153.3 cr, demonstrating its reputation and brand image, as well as its ability to acquire new customers and successfully win new projects.

3. Strong growth prospect for PEB Market: The PEB market in India* is expected to grow at a CAGR of 11 - 12% from Rs 195 bn to Rs 330 - 340 bn between FY24 and FY29, driven by the industrial, infrastructure and building sectors. The industrial sector is prominent in the PEB market, with high usage in automobile, cement, and oil & gas industries. Infrastructure growth is attributed to increased adoption of PEBs in warehouses, cold storage facilities, data centers, power plants, aircraft hangars, and railway yards. The building sector growth is due to the increasing use of pre-engineered steel buildings. Pre-engineered construction accounts for 3% - 5% of the construction market and is projected to increase to 5% - 7% by FY28. India's per capita steel consumption is currently 93 kg and the government's aim is to raise it to 160 kg by FY30. The Indian construction sector, including infrastructure, building and industrial construction, is expected to grow from Rs 46 - 48 tn to Rs 74 - 76 tn between FY24 and FY29. This growth is driven by increased demand from rapid urbanization, the smart city mission, investment in renewable energy, increased spending on warehousing, and favorable government initiatives etc.

Valuation: The company is valued at FY24 P/E multiple of 17.4x at the upper price band based on post issue capital. The company is raising funds to set up a new manufacturing facility, invest in upgrading existing manufacturing facilities, upgrade IT assets, and fund its working capital requirements. The Prefabricated Engineered Building (PEB) market in India is expected to grow at a CAGR of 11-12%, reaching Rs 330-340 bn between FY24 and FY29. While comparing the IPO with peer companies, the stock appears to be fairly valued across different valuation and financial parameters. We recommend subscribing to the issue for a long-term investment horizon.

Issue Details	
Date of Opening	19 th August 2024
Date of Closing	21 st August 2024
Price Band (Rs)	850 - 900
Offer for sale (Equity shares)	44,47,630
Fresh Issue (Rs cr)	200
Issue Size (Rs cr)	578 - 600
No. of shares	68,00,571 – 66,69,852
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	1,425 – 1,497
BRLMs	Ambit Private Ltd., Axis Capital Ltd.
Registrar	Link Intime India Private Ltd.
Bid Lot	16 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
Estimated utilization from net proceeds (Rs cr)	
Financing the capital expenditure towards setting up the Project.	58.5
Financing the capital expenditure towards upgradation of the Kichha Manufacturing Facility, Tamil Nadu Manufacturing Facility I, Tamil Nadu Manufacturing Facility II and Pantnagar Manufacturing Facility.	19.2
Funding investment in information technology assets for upgradation of existing information technology infrastructure of our Company.	11.4
Funding incremental working capital requirements.	55.0
General corporate purpose	-
Total proceeds from fresh issue*	200

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	1,26,18,192	87.53
Public & Others	17,97,700	12.47
Total	1,44,15,892	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	99,68,162	59.4
Public & Others	68,00,671	40.6
Total	1,67,68,833	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	99,68,162	59.9
Public & Others	66,69,952	40.1
Total	1,66,38,114	100.0

Source: RHP, SSL Research

Key Financials

	FY22	FY23	FY24
Revenue from operation (Rs cr)	835	1,124	1,293
EBITDA (Rs cr)	33	106	113
PAT (Rs cr)	17	81	86
EBITDA Margin (%)	3.9	9.5	8.7
PAT Margin (%)	2.1	7.2	6.7
ROE (%)	5.4	22.7	20.4
ROCE (%)	8.4	30.5	27.3
P/E (x)	75.7	15.9	15.0

Note: PE is based on pre-issue at upper band

Source: RHP, SSL Research

Risk Factors

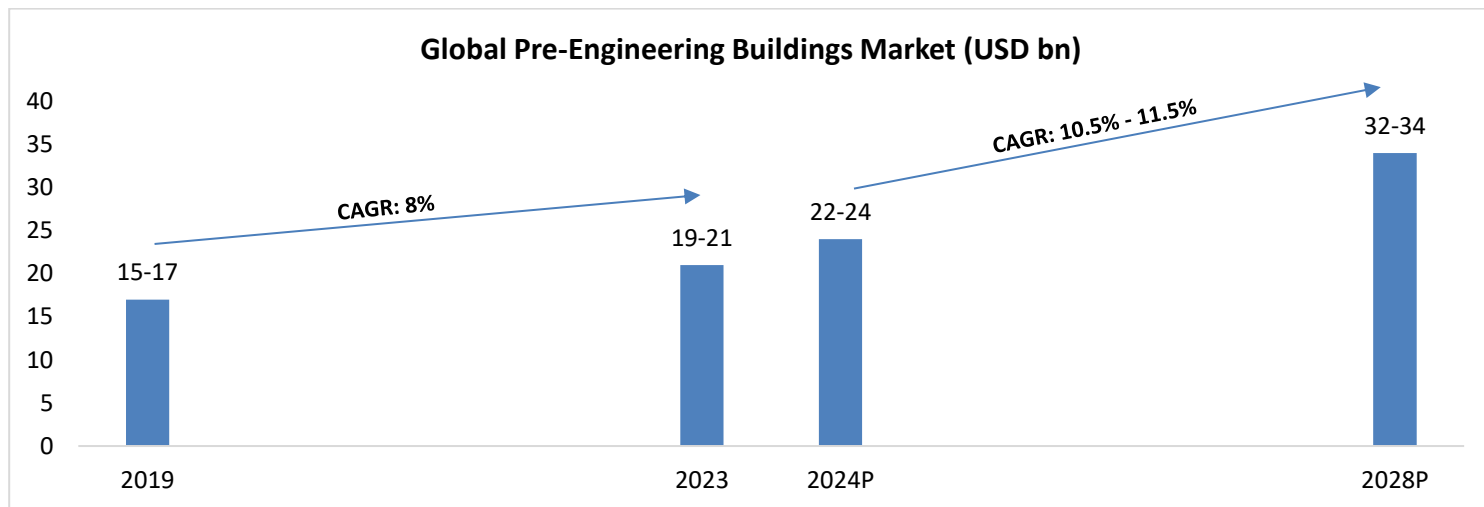
- **Increase in the raw material cost:** Company's profitability depends on the availability and cost of the raw material, any increase or delay in the supply of the raw material will affect the margins of the company.
- **Capacity utilisation:** Under-utilisation of the manufacturing capacity or inability to effectively utilise the expanded capacity may affect the topline growth of the company in future.
- **Revenue from repeat orders:** The company derives a significant portion of its revenue from repeat orders. Revenue from repeat orders constitutes 81% of the total revenue in FY24. Any loss of repeat orders would result in a decline in revenue.
- **Cancellation of orders:** Some of the orders placed by the customers in the past, have been canceled by them. Any cancellation of the orders in the future will impact the revenue.

Growth Strategy

- Capitalize on industry tailwinds through proposed expansion and upgradation of the Manufacturing Facilities.
- Expanding geographical footprint to strategic markets in India and overseas.
- Expand customer base and increase sales from existing customers.
- Continue to invest in the technology infrastructure to enhance in-house design and engineering, and manufacturing capabilities and thereby improve operational efficiencies.

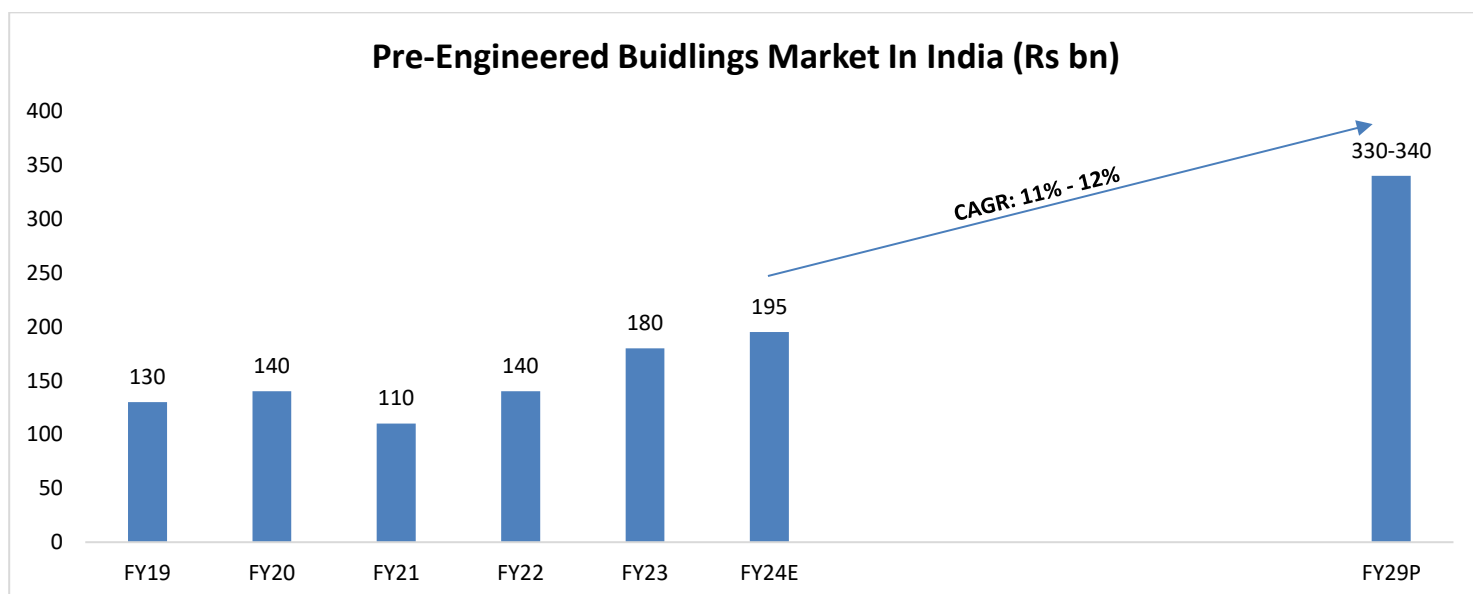
Industry Overview

Global PEB in projected to reach USD 32 – 34 bn by 2028P: The global pre-engineered buildings (PEB) market was valued at USD 19 - 21 bn in CY2023, compared with USD 15 - 17 bn in CY2019. The market witnessed moderate growth during CY2019 - 2023 because of Covid-19 and its subsequent impact on the overall construction sector. The market is expected to clock a CAGR of 10.5-11.5% over the medium term and is projected to be valued at USD 32 - 34 bn by CY2028. This high growth could be attributed to the increasing awareness about modern off-site construction techniques, as well as rising demand for green buildings globally, which has resulted in a shift in focus from traditional steel buildings to pre-engineered buildings.



Source: RHP, SSL Research

Indian PEB is projected to reach Rs 330 – 340 bn by FY29P: The industry expanded at a CAGR of ~8.0% over FY19 - FY24E, growing from Rs 130 bn in FY19 to Rs 195 bn in FY24. The medium-term outlook is optimistic, with the industry expected to grow at 11.0-12.0% CAGR between FY24 and FY29 to Rs 330 - 340 bn, supported by investments in the industrial and infrastructure sectors, such as warehouses and logistics as well as expressways (wayside amenities and toll plazas). Structural steel is seeing good potential and application in metro station structures, airport structures, telecommunication towers, broadcasting towers, floodlight towers, power transmission towers, among others, which is supporting growth in the pre-engineered steel buildings industry in India. The Indian government’s impetus on the infrastructure investments will also drive demand for steel construction-related structures.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
Revenue from Operations	835	1,124	1,293
YoY growth (%)	-	34.6	15.1
Cost Of Revenues (incl. Stock Adj.)	565	732	824
Gross Profit	270	391	470
Gross margins (%)	32.3	34.8	36.3
Employee Cost	89	93	119
Other Operating Expenses	148	192	238
EBITDA	33	106	113
EBITDA margins (%)	3.9	9.5	8.7
Other Income	6	12	13
Net Interest Exp.	4	3	2
Depreciation	12	7	8
PBT	23	109	116
Tax	5	27	30
PAT	17	81	86
PAT margin (%)	2.1	7.2	6.7
EPS	11.9	56.5	59.8

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
Assets			
Net Block	99.0	103.9	106.4
Capital WIP	-	-	12.7
Intangible Assets	0.1	0.0	0.2
Intangible Assets under development	-	-	-
Right of use assets	52.6	53.6	56.5
Other Non-current Assets	38.4	53.8	64.6
Current Assets			
Inventories	134.1	137.0	146.8
Trade receivables	85.7	158.7	170.8
Cash and Bank Balances	91.8	119.2	137.7
Short-term loans and advances	0.3	0.3	0.6
Other Current Assets	41.6	48.6	58.7
Total Current Assets	353.5	463.7	514.6
Current Liabilities & Provisions			
Trade payables	80.5	103.7	133.6
Other current liabilities	113.7	138.0	154.9
Short-term provisions	1.2	1.4	1.7
Total Current Liabilities	195.3	243.0	290.1
Net Current Assets	158.2	220.7	224.5
Total Assets	348.5	432.0	464.9
Liabilities			
Share Capital	15.0	15.0	14.4
Reserves and Surplus	303.3	384.3	430.2
Total Shareholders' Funds	318.3	399.3	444.6
Total Debt	3.4	11.4	10.2
Lease Liabilities	4.5	6.3	3.2
Other Long-Term Liabilities	19.8	9.1	1.2
Net Deferred Tax Liability	2.5	5.9	5.7
Total Liabilities	348.5	432.0	464.9

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	26	31	82
Cash flow from Investing Activities	9	(19)	(33)
Cash flow from Financing Activities	0	6	(46)
Free Cash Flow	22	18	63

RATIOS			
	FY22	FY23	FY24
Profitability			
Return on Assets (%)	3.2	13.4	12.1
Return on Capital Employed (%)	8.4	30.5	27.3
Return on Equity (%)	5.4	22.7	20.4
Margin Analysis			
Gross Margin (%)	32.3	34.8	36.3
EBITDA Margin (%)	3.9	9.5	8.7
Net Income Margin (%)	2.1	7.2	6.7
Short-Term Liquidity			
Current Ratio (x)	1.8	1.9	1.8
Quick Ratio (x)	1.1	1.3	1.3
Avg. Days Sales Outstanding	37	40	46
Avg. Days Inventory Outstanding	59	44	40
Avg. Days Payables	35	30	33
Fixed asset turnover (x)	8.4	11.1	12.3
Debt-service coverage (x)	3.5	8.0	9.5
Long-Term Solvency			
Total Debt / Equity (x)	0.0	0.0	0.0
Interest Coverage Ratio (x)	6.1	43.0	54.6
Valuation Ratios			
EV/EBITDA (x)	36.8	11.2	10.4
P/E (x)	75.7	15.9	15.0
P/B (x)	4.1	3.2	2.9
EV/Sales (x)	1.4	1.1	0.9

Valuation ratios are based on pre-issue capital at upper band

Source: RHP, SSL Research

Peer Comparison – FY24

	Interarch Building Products Limited	Everest Industries Limited	Pennar Industries Limited
CMP (Rs)	900	1,051	165
Sales (Rs cr)	1,293	1,575	3,131
EBITDA (Rs cr)	113	42	273
PAT (Rs cr)	86	18	98
Mkt Cap. (Rs cr)	1,497	1,658	2,234
Enterprise Value (Rs cr)	1,170	1,691	2,877
EBITDA Margin (%)	8.7	2.7	8.7
PAT Margin (%)	6.7	1.1	3.1
P/E (x)	17.4	92.1	22.8
EV/EBITDA (x)	10.4	40.3	10.5
EV/Sales (x)	0.9	1.1	0.9
RoE (%)	20.4	2.3	11.9
RoCE (%)	27.3	3.9	15.8

The data is based on FY24 financial data.

For Interarch Buildings Products Ltd, the P/E, Market cap, EV/Sales and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 14th August, 2024.

Source: RHP, SSL Research

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