

IPO Note: Pennar Engineered Building Systems Ltd.

Industry: Pre-Engineered Building

Recommendation: Subscribe

Date: August 21, 2015

Issue Snapshot

Company Name	Pennar Engineered Building Systems Ltd.
Issue Opens	August 25, 2015 to August 27, 2015
Price Band	Rs. 170 to Rs. 178
Bid Lot	80 Equity Shares and in multiples thereof.
The Offer	Public issue of 87.74 lakhs – 89.28 lakhs Equity shares of Face value Rs.10 each, (Comprising of fresh issue of 32.58 lakhs Equity Shares (Upper Price Band) and Offer for Sale of 55.16 lakhs Equity Shares by Selling Shareholder).
Issue Size	Rs. 151.8 – 156.2 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
IPO Grading	NA
Exchanges	NSE & BSE
BRLM	Axis Capital Limited, Karvy Investor Services Limited, Motilal Oswal Investment Advisors Private Limited
Registrar	Karvy Computershare Private Limited

Equity Shares offered through this Offer	Nos. of Share	As a % of total
Equity Shares offered through this Offer	8774568	100.0%
A. Fresh Issue	3258427	
B. Offer for Sale	5516141	
I. QIB Portion (Not more than)	4387284	50.0%
- Anchor Investor Portion		
- Mutual Funds only (5% of the QIB Portion)		
- QIBs including Mutual Funds		
II. Non-Institutional Portion (Not less than)	1316185	15.0%
III. Retail Portion (Not less than)	3071099	35.0%
Pre and post Issue Equity Shares	Nos. of Share	
Equity Shares outstanding prior to the Issue	31,016,485	
Equity Shares outstanding after the Issue	34,274,912	

Objects of the Offer

The Issue comprises of the Fresh Issue by the Company and an Offer for Sale by the Selling Shareholder.

Offer for Sale

The funds from the Offer for Sale shall be received by the Selling Shareholders and the company shall not receive any proceeds from the Offer for Sale.

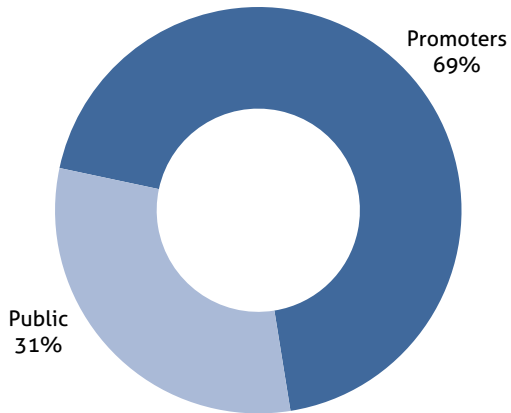
The Fresh Issue

The activities for which funds are being raised by the Company through the Fresh Issue after deducting the Issue related expenses for the Company are:

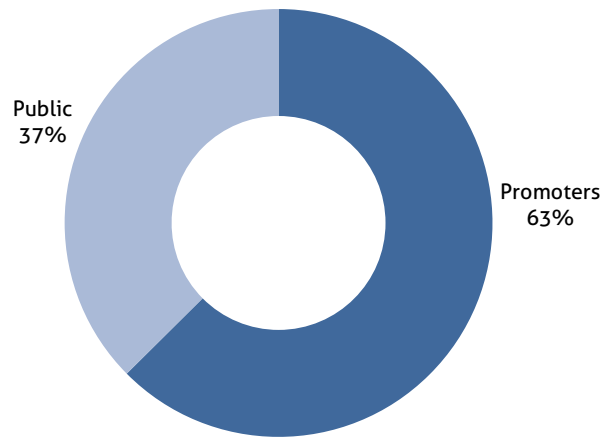
- Repayment/ prepayment, in full or part, of certain working capital facilities availed by our Company;
- Financing the procurement of infrastructure (including software and hardware) for the expansion of our design and engineering services; and
- General Corporate Purposes.

In addition, the Company expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges.

Pre-Issue



Post-Issue (Upper Price Band)



About the company

Pennar is one of the leading custom designed building systems solutions providers in India. Their capabilities include designing, manufacturing, supply and assembly of custom designed building systems. The products and services include pre-engineered buildings, design and engineering services, solar module mounting structures, cold form buildings and structural steel products which are widely used for various manufacturing, warehousing, industrial, infrastructure and custom designed commercial buildings.

As of June 30, 2015, Pennar has completed design, manufacturing, supply and assembly of 83,967 MT covering sqm area of 18,58,552 pre-engineered buildings in various sectors including warehousing, retail and manufacturing; design, supply and erection of solar module mounting structures for generation of solar power; design, manufacturing, supply and erection of structural steel buildings and cold form buildings. In addition, Pennar has also provided design and engineering services for projects being executed by other.

Company's Core Product, i.e. pre-engineered buildings are steel buildings which are custom designed and fabricated as per customer's requirements in accordance with the applicable standards. The fabrication of pre-engineered building components is carried out in the manufacturing facility under strict quality control at every level of production and as per detailed designs created by Pennar and approved by their customers.

Pennar's operation of works includes :

- Pre-engineered building systems (Core Manufacturing activity); offers enhanced speed in delivery and erection, flexibility in expansion and are capable of withstanding weather pattern changes.
- Design, supply and erection of solar module mounting structures for solar energy parks;
- Design, manufacturing, supply and assembly of commercial buildings such as high-rise buildings, multi-level car-parks, low cost housing and other structural steel products;
- Cold form structures like schools, low cost housing
- Design and engineering services to the customers using advanced software platforms

Pennar has a non-exclusive technical know-how licensing arrangement with NCI Group, Inc. USA, for supply of standing seam roofing panel system in India under the brand name 'Double Lok®'. Pennar is one of the few companies that offer leak-proof roofing systems in India. Pennar has also entered into a design services out-sourcing agreement with a US based entity engaged in similar business, pursuant to which Pennar offer their design and engineering services to US based entity by using their software for manufacturing of pre-engineered buildings by them for their overseas customers.

Company's manufacturing facility:

Company's manufacturing facility, which is spread over an area of 35 acres and 27½ guntas is located at Ankenpally Village, Sadashivpet in the State of Telangana on the Hyderabad-Mumbai National Highway (NH-9). It is equipped with high-precision machines to fabricate and supply quality-replete steel buildings and has a production capacity of 90,000 MT p.a. of fabricated structural metal products a year. The manufacturing facility also houses a testing lab for quality checks of their products at various stages of manufacturing. The manufacturing facility has received a "Gold Rating" from the Indian Green Building Council for the practices in green building technology.

Pennar has established their execution capabilities, which has enabled them to develop firm relationships with various manufacturing and infrastructure companies and have managed to secure repeat orders from the customers. The company has an established track record of executing projects with distinctive features, some of which were achieved for the first time in the Indian pre-engineered buildings industry.

Some of the key projects includes:

- Execution of a 99 metre clear span building with 27 metre peak high, the single largest clear span building ever executed by a PEBS player in India;
- Execution of the first pre-engineered building in India with EOT crane capacity of 250 MT;
- Execution of a multi-storied building in pharma sector with a height of 33 metre (ground + 7 floors);
- Execution of a 400,000 sq ft National Distribution Centre for a leading retail and distribution entity.

Company's products have also been used for metro stations, international airports, aircraft hangars and military engineering services projects. Pennar has a strong customer profile and cater to some of the leading manufacturing companies in India.

Pennar's Major Customers

Ultratech Cement Limited	Etco Denim Private Limited,
India Cements Limited,	Shyam Indofab Private Limited
Volvo India Private Limited,	Rudrapratap Indian Logistics Private Limited
Larsen & Toubro Limited (CMB Division),	Indian Corporation
Calderys India Refractories Limited,	Azure Power

Top five customers of the Company on the basis of their contribution to the Company's turnover (Rs. in Cr.)

Sr. No.	Fiscal 2014		Fiscal 2015	
	Customer	Gross Sales*	Customer	Gross Sales*
1	Reliance Jio Infocomm Ltd	151.15	Reliance Jio Infocomm Ltd	89.33
2	Frontier Sales Corp	26.29	MRF Ltd	50.28
3	Nuevosol Energy Pvt Ltd	14.80	Ultratech Cement Ltd	41.10
4	Larsen & Toubro Ltd	12.83	Azure Power India Pvt Ltd	40.78
5	Ultratech Cements Ltd	12.06	Larsen & Toubro Ltd	29.54
TOTAL		217.13		251.04

* Gross sales excludes service tax and sales tax

Competitive Strengths

- Strong Engineering Design Capabilities
- Established track record for timely execution
- Diversified products and solutions
- Strong financial performance
- Experienced senior management team, technically skilled and motivated employees and strong parentage
- Technical Know-how arrangement with NCI Group, Inc.

Strategy going forward

- Strengthen the presence in India and grow in new geographies
- Enhancing and expanding the product portfolio and increasing the installed capacity
- Expansion of the design and engineering capabilities
- Targeting new customer accounts and expanding existing customer accounts
- Continue to enhance the brand in the PEBS industry

Key Concern

- Company's ability to successfully win new contracts
- Product and market mix and growth of new lines of business
- Lump-sum Contracts
- Raw Material, Input and Employee Costs
- The composition of the Order Book and the ability to execute such contracts
- Government Incentives

Valuation

Pennar Engineered Building Systems (Pennar), incorporated in 2008 is a subsidiary of Pennar Industries, leading engineering products company in India. Pennar is one of the leading custom designed building systems solutions providers in India. Primarily, company is engaged in designing, manufacturing, supply and assembly of custom designed building systems. The products and services include pre-engineered buildings, design and engineering services, solar module mounting structures, cold form buildings and structural steel products which are widely used for various manufacturing, warehousing, industrial, infrastructure and custom designed commercial buildings. Pennar has successfully completed the design, manufacturing, supply and assembly of 83,967 MT covering sqm area of 18,58,552 pre engineered buildings in various sectors including warehousing, retail and manufacturing. Company's Core Product, i.e. pre-engineered buildings are steel buildings which are custom designed and fabricated as per customer's requirements in accordance with the applicable standards. Further company has maintained long-standing relationship with major clients including Ultratech Cement, India Cement, Volvo India Pvt Ltd, Larsen & Toubro, MRF, Reliance Jio Info, etc. Currently, the company has 156 ongoing projects across 20 states in India at various stages of execution aggregating to a total order value of Rs.356.19 Crores. Strategically, Pennar has technical tie up with US based NCI Group for supply of standing seam roofing panel system in India under the brand name "Double Lok".

Company's business growth is directly linked with Industrial & manufacturing growth and any revival in industrial space as expected would be key trigger for its long term growth story. The government has been trying hard to rebound the economic growth from trough by unleashing spate of reform policies and thus the growth recovery is expected in near time soon. The company has maintained a growth rate of 32% CAGR in past five years, when the domestic economy was faltering and the credit growth was squeezed owing to high inflation. Steel is the main raw material for its products and it accounts nearly 60% of sales. Despite of high global commodity prices during the period between 2010-2012, company was able to report 28% EBITDA CAGR in last five years. Company's business model doesn't require intensive capex, thus the balance sheet is not overleveraged with debt/equity ratio of 0.32x. Lower requirement of capex led company's PAT growth during the past five years, which grew at a CAGR of 39%. Such robust growth in bottom line coupled with sustainable margins supported company's RoE expansion. Global rout in commodity prices like steel has been auguring well for the company as its RM costs account 67% of total cost. Furthermore, Chinese currency devaluation would put more pressure on domestic steel prices and that could prove as margin accretion going ahead.

*The public issue is comprised of both fresh issue and offer for sale. The company is offering 0.33 crore of fresh equity shares, thus diluting 10% of total equity. At the upper price band, the company is valued at EV/EBITDA of 13.2x on FY15 EBITDA and P/E multiple of 27.8x on FY15 post diluted earnings. Given its strong execution skill, low capex requirement, healthy balance sheet, quality technological support, benign raw material prices and robust financial growth in past years, we believe that the premium valuation for the Issue is justified. Hence we recommend our investors to **SUBSCRIBE** the issue from long term investment perspective.*

Financial Statement

Income Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15
Revenue from operations	147.5	248.6	290.0	367.0	450.3
Revenue Growth (%)		68.5	16.7	26.5	22.7
Other Income	0.3	0.4	0.9	2.8	2.1
Total Income	147.8	248.9	291.0	369.7	452.4
Total expenses	130.1	219.4	254.0	329.9	403.5
Operating Profit	17.4	29.2	36.1	37.0	46.8
OPM (%)	11.8	11.7	12.4	10.1	10.4
Depreciation	2.0	2.9	3.1	3.3	5.8
Finance cost	6.8	11.0	11.5	7.7	9.7
Tax expense	3.0	5.1	7.6	11.6	11.4
Adj. Net Profit	5.9	10.6	14.8	17.2	22.0
NPM (%)	4.0	4.3	5.1	4.7	4.9

Source: RHP

Asset Liability Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15
Equity & Liabilities					
Share capital	25.0	25.0	27.5	30.5	30.7
Shareholder's Fund	31.1	41.7	70.4	106.6	128.5
Long Term Borrowings	0.1	3.7	-	0.2	0.1
Other Non Current Liabilities	2.8	4.0	4.3	6.8	10.1
Short-term borrowings	51.0	47.7	49.4	34.5	40.4
Other Current Liabilities	45.1	86.5	113.5	116.0	139.4
Total	130.0	183.6	237.7	264.1	318.5
Assets					
Fixed Assets	48.5	49.3	60.0	68.6	65.3
Other Non Current Assets	0.9	5.9	4.9	1.9	2.2
Current investments	-	-	3.3	25.5	26.0
Cash and cash equivalents	5.4	6.1	25.9	6.1	5.8
Total Current Assets	80.7	128.3	172.7	193.5	251.0
Total	130.0	183.6	237.7	264.1	318.5

Cash Flow Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15
Cash flow from Operations Activities	3.6	13.7	33.8	19.0	2.4
Cash flow from Investing Activities	(9.6)	(5.7)	(14.8)	(35.4)	0.8
Cash flow from Financing Activities	4.5	(7.3)	0.8	(7.5)	(3.1)
Net increase/(decrease) in cash and cash equivalents	(1.5)	0.7	19.8	(23.9)	0.0
Cash and cash equivalents at the beginning of the year	6.9	5.4	6.1	25.9	2.0
Cash and cash equivalents at the end of the year	5.4	6.1	25.9	2.0	2.0

Source: RHP

Ratios

	FY11	FY12	FY13	FY14	FY15
Earning per share (EPS) (Rs.)	2.35	4.23	5.79	5.61	7.09
Net Asset Value per share (Rs.)	12.44	16.67	25.38	34.38	41.43
Return on Net Worth (RONW) (%)	18.86	25.38	20.97	16.15	17.10

Source: RHP

Comparison with listed industry peers

There are no listed entities in India which are similar to the line of business and comparable to the scale of operations.

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