

## Pennar Industries Ltd..

### Q3 FY18 Quarterly Update

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#### MARKET DATA

MARKET DATA	PENIND
NSE TICKER	PENIND
Networth FY18E (Rs in Crs)	635.5
P/BV Ratio (FY18) (x)	1.2X
EPS (FY18E)(Rs.)	4.4
Market Price (Rs.)	60.3
P/E Ratio (FY18E) (x)	13.6
52 Week High(Rs)	79
52 Week Low (Rs)	40
Market Capitalisation (rs. Cr)	753.5

#### AVERAGE MONTHLY VOLUME ('000)

BSE	101
NSE	622

#### SHARE HOLDING PATTERN

Promoter	36.4
FII	10.1
DII	9.1
Public	44.7

#### RETURN (%)

	3M	6M	12M
Pennar Ind	-1.4	3.6	44.4
Nifty	0.9	5.5	17.6

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#### Mixed set of numbers:

Pennar Industries Ltd. (PIL) reported mixed set of numbers at consolidated level for Q3FY18. While the standalone business (consisting of Steel Products, Tubes, Industrial components and Railways) reported strong growth of 22.1% YoY in revenues, the Pre-Engineered Buildings (PEBs) business saw a decline of 16.2% during the quarter. The PEBs business was hit by one off factor as company had to evacuate its Baroda plant after the lessor refused to renew the lease. This led to one month's loss in revenue and delay in execution of certain projects. However the management is confident of catching up with lost revenue in Q4FY18. It has shifted its plant to Hyderabad alongside the existing one and will operate from there.

At consol level, PIL reported 5.4% YoY (-1.8% QoQ) increase in revenues to Rs. 414.9 cr. The growth in revenues was mainly led by Steel and Solar Products (18.7% YoY), Tubes (31.4%) and Railways division (16.4% YoY) which offset steep decline in PEBS revenue. Company was able to hold up its EBITDA margin at 10.5%, decline of 20 bps YoY and improvement of 80 bps QoQ, which is a positive takeaway on the backdrop of increasing commodity prices, especially Steel (60-65% of sales.) Financial leverage gains from lower interest cost lead to 24.6% increase in PAT for the company.

#### Q4FY17 Updates and Concall Highlights:

- Company is on track to achieve 30% revenue growth in FY18 and higher double digit growth in FY19 in standalone business (65% of total sales).
- There is some pressure on margins in solar division (17% of total revenues) due to increase in steel prices and lower tariffs. But company is still able to hold its at slightly lower than historical levels.
- Company is also de-risking its business model by expanding capacity of other value added product division. Company's capex focus during FY19 would be on Railways, Tubes and Industrial components division. All of these are high margin business.
- Company aims at completing its capacity expansion by H1FY19 and full benefit of it will be derived from H2FY19.
- In PEB business, company is facing some commodity risk since prices of steel have increased by ~20% over last 3-4 months. Therefore company will be introducing pass through clause in all its new contracts. Further to secure itself from fluctuations in steel prices, company has started to enter into 3 months contract with its vendors, thus fixing its price in advance.

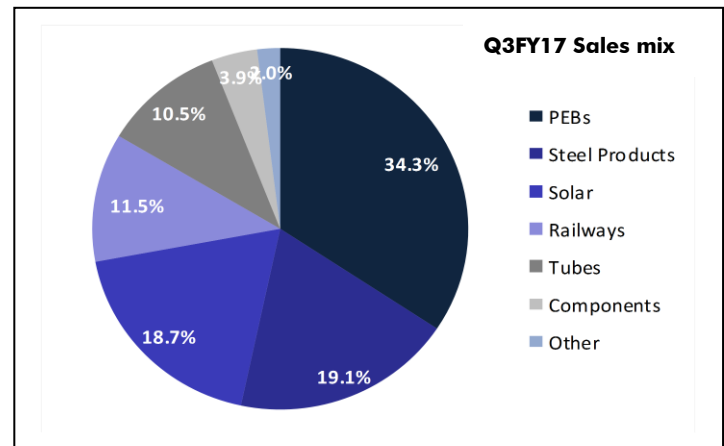
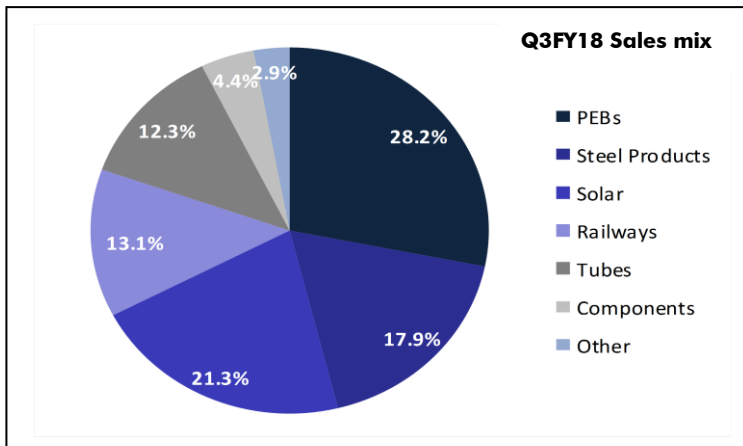
#### Quarterly Performance:

Particulars (Rs in crs)	Q3 FY18	Q3 FY17	YoY (%)	Q2 FY18	QoQ (%)	FY17	FY16	YoY (%)
Net Sales	414.9	393.6	5.4	422.5	-1.8	1542.2	1306.7	18.0%
RM Cost	249.3	239.0	-9.3	267.5	-6.8	924.4	806.0	
RM Cost as % of Sales	60.1%	60.7%	-60 bps	63.3%	-320 bps	59.9%	61.7%	-180 bps
EBITDA	43.5	42.1	3.5	41.0	6.3	167.0	147.9	12.9%
EBITDA Margin	10.5%	10.7%	-20 bps	9.7%	80 bps	10.8%	11.3%	-50 bps
Interest	14.7	16.0	--	17.4	--	61.0	38.14	--
PBT	23.1	21.0	10.0	20.2	14.2	87.9	87.9	0.1
Tax	5.7	7.0	--	7.7	--	29.3	35.8	--
PAT	17.4	14.0	24.6	12.5	39.6	58.5	58.2	0.1
Share of Associates	-4.2	-3.8	--	-2.0	--	-11.9	-14.4	--
Consl PAT	13.3	10.2	29.4	10.5	26.4	46.7	43.9	9.9%
EPS	1.1	0.9	29.4	0.9	26.4	3.9	3.6	8.3%



- The merger procedure of its two subsidiaries, Pennar Engineered Building Systems Ltd. (PEBS) and Pennar Enviro is progressing as per schedule. The merger ratio announced is:
  - 23 shares of Pennar Industries for 13 shares held in PEBS.
  - 1 share of Pennar for every 1 share held in Pennar Enviro.

**Other Highlights for the quarter:**



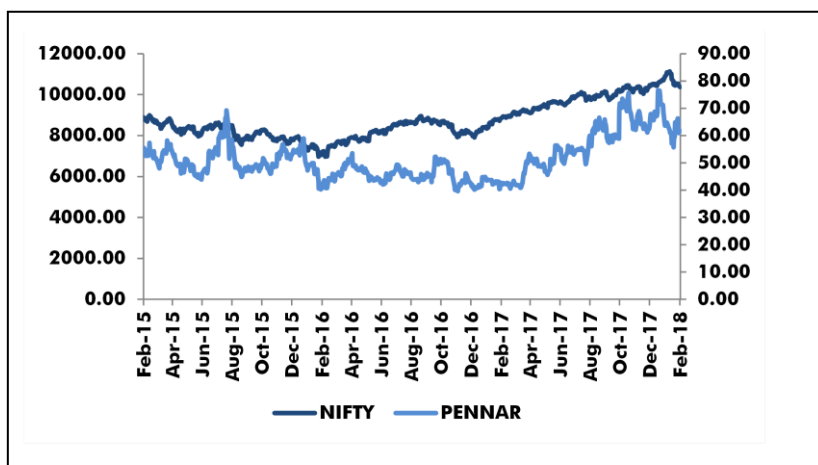
- The CDW capacity expansion is expected to complete by March 2018. The division is also planning to add a 5th tube mill to get ready for the FY19 and the project will kick off in May/ June 2018.
- Under Industrial components company added few new products viz., Hoist Cylinder, Tie rod cylinders and Farm Equipment cylinders. It also helped company increase its business with existing clients and add new ones.
- Steel Products: The new plant at Velchal, near Hyderabad has started production and has helped company secure new orders.

**Valuation & View:**

We believe that the elusive economic recovery, and thus the capex cycle, is on the anvil and it would augur well for Pennar industries. This coupled with company’s foray into new industries, addition of new production capabilities and expansion of the existing ones would underpin strong revenue growth for Pennar Industries through FY20. We also believe that company’s margins which contracted during first half of FY18 to 9.7% will recover back to 10.5% by FY20.

At CMP of Rs. 60, shares of Pennar Industries are trading at 13.8X trailing P/E. We are valuing Pennar Industries at 14X FY19 EPS of Rs. 5.9 to arrive at our target price of Rs. 83 for the stock, representing an upside of 38%.

**3-Yr Price comparison**





<b>Pennar Industries Ltd.- Statement of Profit &amp; Loss</b>					
<b>DESCRIPTION</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Net Sales	1306.7	1542.2	1822.3	2074.0	2268.7
<b>EXPENDITURE :</b>					
Raw Material Consumed	806.0	924.4	1132.2	1289.8	1413.3
Other Manufacturing Costs	186.9	252.4	285.0	319.6	349.7
Employee Cost	91.0	104.2	116.7	128.4	138.7
Other Operating Expenses	74.8	94.2	108.5	120.0	128.5
<b>EBITDA(Excl OI)</b>	<b>147.9</b>	<b>167.0</b>	<b>179.9</b>	<b>216.2</b>	<b>238.5</b>
<b>EBITDA Margin</b>	<b>11.3%</b>	<b>10.8%</b>	<b>9.9%</b>	<b>10.4%</b>	<b>10.5%</b>
Depreciation	18.9	25.4	27.4	30.2	32.6
<b>EBIT</b>	<b>129.1</b>	<b>141.6</b>	<b>152.5</b>	<b>186.0</b>	<b>205.9</b>
Other Income	3.4	7.3	7.5	7.5	7.5
Interest	38.4	61.0	68.8	70.5	71.8
<b>PBT</b>	<b>94.0</b>	<b>87.9</b>	<b>91.3</b>	<b>123.0</b>	<b>141.6</b>
Provision for Tax	35.8	29.3	31.0	41.8	48.1
Minority Interest	-14.4	-11.9	-6.9	-9.9	-10.1
<b>Profit After Tax</b>	<b>43.9</b>	<b>46.7</b>	<b>53.3</b>	<b>71.3</b>	<b>83.3</b>
<b>Earnings Per Share</b>	<b>3.6</b>	<b>3.9</b>	<b>4.4</b>	<b>5.9</b>	<b>6.9</b>

<b>Pennar Industries Ltd.- Balance Sheet</b>					
<b>DESCRIPTION</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Equity Share Capital	60.2	60.2	60.2	60.2	60.2
Total Reserves	450.8	487.5	574.9	646.2	729.5
<b>Shareholder's Funds</b>	<b>510.9</b>	<b>547.7</b>	<b>635.0</b>	<b>706.3</b>	<b>789.7</b>
<b>Minority Interest</b>	<b>85.2</b>	<b>106.5</b>	<b>113.4</b>	<b>123.3</b>	<b>133.4</b>
Total Borrowings	266.9	307.3	282.3	278.5	273.4
Other Long Term Liabilities	36.1	43.2	45.8	48.5	50.7
<b>Total Non-Current Liabilities</b>	<b>303.0</b>	<b>350.5</b>	<b>328.1</b>	<b>327.0</b>	<b>324.1</b>
Trade Payables	432.4	438.1	495.2	555.2	601.7
Other Current Liabilities	90.3	114.4	135.2	153.8	168.3
<b>Total Current Liabilities</b>	<b>522.7</b>	<b>552.5</b>	<b>630.4</b>	<b>709.0</b>	<b>770.0</b>
<b>Total Liabilities</b>	<b>1421.8</b>	<b>1557.1</b>	<b>1707.0</b>	<b>1865.6</b>	<b>2017.2</b>
Fixed Assets	466.8	470.7	515.4	560.7	595.1
Other Non Current Assets	16.8	25.1	29.7	33.8	37.0
<b>Total Non-Current Assets</b>	<b>483.7</b>	<b>495.9</b>	<b>545.1</b>	<b>594.6</b>	<b>632.1</b>
Current Investments	33.2	35.3	35.3	35.3	35.3
Inventories	256.7	399.1	458.8	491.9	535.5
Sundry Debtors	383.2	388.4	463.9	512.9	562.3
Cash and Bank	170.9	78.3	58.7	58.7	58.7
Other Current Assets	94.1	160.1	145.2	172.3	193.3
<b>Total Current Assets</b>	<b>938.1</b>	<b>1061.2</b>	<b>1161.8</b>	<b>1271.0</b>	<b>1385.1</b>
<b>Total Assets</b>	<b>1421.8</b>	<b>1557.1</b>	<b>1707.0</b>	<b>1865.6</b>	<b>2017.2</b>



Pennar Industries Ltd.- Cash Flow					
DESCRIPTION	FY16	FY17	FY18E	FY19E	FY20E
PBT + Depreciation	109.5	106.0	111.1	145.6	166.7
Tax Paid	-35.8	-29.3	-31.0	-41.8	-48.1
Changes in Working Capital	70.9	-66.9	-88.9	-32.0	-54.0
<b>Cash Flow from Operations</b>	<b>144.6</b>	<b>9.8</b>	<b>-8.8</b>	<b>71.8</b>	<b>64.5</b>
<b>Cash Flow from Investing</b>	<b>-265.0</b>	<b>-2.7</b>	<b>-76.3</b>	<b>-68.0</b>	<b>-59.5</b>
Proceeds from Equity	52.4	0.0	0.0	0.0	0.0
Free Cash Flow	-68.0	7.1	-85.0	3.9	5.1
<b>Debt (Repaid)/ Borrowed</b>	<b>113.9</b>	<b>-0.3</b>	<b>-25.0</b>	<b>-3.9</b>	<b>-5.1</b>
Opening Cash	6.0	51.9	58.7	58.7	58.7
<b>Closing Cash</b>	<b>51.9</b>	<b>58.7</b>	<b>58.7</b>	<b>58.7</b>	<b>58.7</b>

Pennar Industries Ltd.- Key Ratios					
DESCRIPTION	FY16	FY17	FY18E	FY19E	FY20E
EBITDAM (%)	0.1	0.1	0.1	0.1	0.1
ROE (%)	9.6	8.8	9.0	10.6	11.1
ROCE (%)	15.8	16.0	16.0	18.2	19.4
Inventory Turnover(x)	4.3	3.6	3.3	3.4	3.4
Debtors Turnover(x)	3.6	4.0	4.3	4.2	4.2
Creditors Turnover(x)	3.2	2.7	3.0	3.1	3.0
Fixed Asset Turnover (x)	2.1	2.1	2.4	2.4	2.5
Receivable days	101	91	85	86	86
Inventory Days	85	102	110	108	106
Payable days	116	135	120	119	120
Total Debt/Equity(x)	0.5	0.6	0.4	0.4	0.3
Current Ratio(x)	1.8	1.9	1.8	1.8	1.8
Adjusted P/E Ratio	17.7	16.6	14.6	10.9	9.3
Price/ Book value	1.6	1.5	1.2	1.1	1.0



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