



## Pennar Industries Ltd. Q4 FY18 Quarterly Update

### MARKET DATA

NSE TICKER		PENIND
Networth FY18 (Rs in Crs)		617
P/BV Ratio (FY18) (x)		1.1X
EPS (FY18)(Rs.)		5.8
Market Price (Rs.)		54
P/E Ratio (FY18E) (x)		9.3
52 Week High(Rs)		79
52 Week Low (Rs)		49
Market Capitalisation (rs. Cr)		682.2

### 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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### Strong sets of numbers:

Pennar Industries Ltd. (PIL) reported strong sets of numbers at both standalone and consolidated level for Q4FY18. While the standalone business (consisting of Steel Products, Tubes, Industrial components and Railways) reported strong growth of 21.4% YoY in revenues, the Pre-Engineered Buildings (PEBs) business saw a marginal decline of 1.0% during the quarter. In PEB division, company had shifted its plant from Baroda to Hyderabad during end of Q3 and it took a while for the plant to stabilize operations which led to delay in execution of orders. However the management is confident of catching up with lost revenue during FY19.

Segment-wise growth Y-o-Y: Railways: 74.9%, Tubes: 58.9%, Industrial Components: 26.4%, Steel Products: -0.5% and Pre-Engineered Buildings: -1.0%.

PIL's operating performance improved significantly on the back of better product mix in steel and tubes segment and operating leverage gains from higher volume. The company reported EBITDA Margin of 15.4% against 7.8% in the corresponding quarter (10.5% during Q3FY18) resulting in more than doubling of EBITDA to Rs. 77.3 cr. Company recorded an exceptional gain of Rs. 13 cr during the quarter pertaining to sale of one of its subsidiaries Pennar Renewables. Despite higher interest rate and depreciation, company's Adj. PAT grew to Rs. 25.7 cr against Rs. 7.2 cr YoY

### Q4FY18 Updates and Concall Highlights:

- Management is confident of achieving higher double digit revenue growth in standalone business and more than 20% growth in Pre-Engineered buildings.
- Prices of steel have been consistently rising and company has been able to pass on most of it. Further, higher sales of value added products in steel products, Railways and Tubes division enabled them to absorb higher commodity prices.
- There is some pressure on margins in solar division (17% of total revenues) due to increase in steel prices, lower power tariffs and building up of competition.
- 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 is expanding its PEB capacity at Hyderabad from 90,000 MT to 120,000 MT as company is foreseeing strong demand in FY19. Current capacity utilization stands at 70%. Company is getting lots of enquiries from various industries. It received order from MRF and Bridgestone who are expanding their capacity and from GMR for their airport.

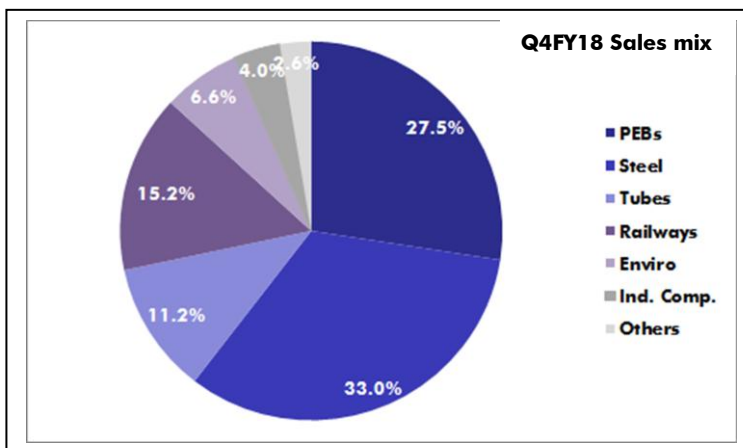
### Quarterly Performance:

Particulars (RS in crs)	Q4 FY18	Q4 FY17	YoY (%)	Q3 FY18	QoQ (%)	FY18	FY17	YoY (%)
Net Sales	503.1	463.9	8.4	414.9	21.3	1768.4	1542.2	14.7
RM Cost	295.3	286.7	3.0	249.3	18.4	1078.1	924.4	16.6
RM Cost as % of Sales	58.7%	61.8%	-310 bps	60.1%	-140 bps	61.0%	59.9%	110 bps
EBITDA	77.3	36.1	114.1	43.5	77.4	204.1	167.0	22.2
EBITDA Margin	15.4%	7.8%	760 bps	10.5%	490 bps	11.5%	10.8%	70 bps
Interest	19.7	18.6	--	14.7	--	67.4	61.0	--
Exceptional Items	13.0	--	--	--	--	13.0	--	--
PBT	70.4	14.1	401.2	23.1	204.8	138.0	87.9	40.4
Tax	22.9	0.7	--	5.7	--	47.6	29.3	--
PAT	47.5	13.4	254.9	17.4	172.5	90.4	58.5	29.6
Share of Associates	-11.6	-6.2	--	-4.2	--	-20.2	-11.9	--
Consl PAT	35.9	7.2	395.8	13.3	170.9	70.2	46.7	50.4
EPS	3.0	0.6	395.8	1.1	170.9	5.8	3.9	49.6



- Interest out go was high during the quarter because of increase in working capital. Since the company is dealing with Govt. agencies the working capital cycle is expected to remain stretched. Further, the suppliers like JSW Steel are reducing their credit period. Therefore company has to resort to short term financing and there is nothing else they could do about it.
- Even in standalone business company is ramping up capacity for value added products and it will be incurring capex of 70-80 cr (10% of Gross block) during the year.
- The merger 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 Pennar Engg Buildings.
  - 1 share of Pennar for every 1 share held in Pennar Enviro (mainly promoters and P/E investors).

**Other Highlights for the quarter:**



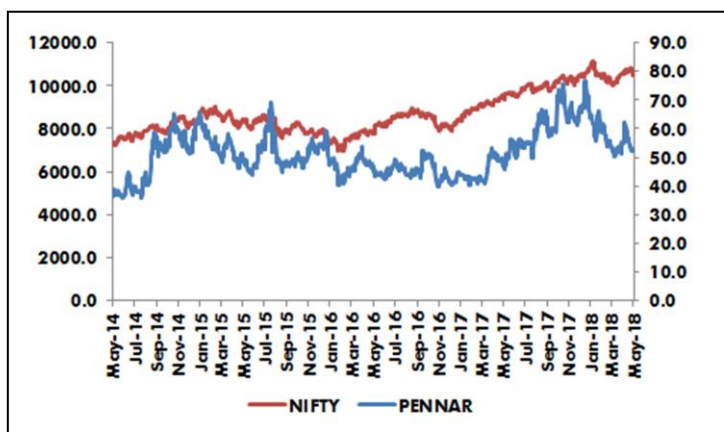
- In Railway Division Company added a new product, Under frame Assemblies, in its portfolio.
- The expansion of CDW Tubes from 1000 MT to 1500 MT is on way and will get completed by May end.
- Received export orders for CDW tubes from USA, Europe, and South Africa. Pennar is in the process of adding a new customer from USA.
- Order-book for PEB stands at 353 cr which is ~6-7 months book and ideal for this industry.

**Valuation & View:**

Revival in capex by the private companies coupled with company’s foray into new industries and addition & expansion of production capabilities would underpin strong revenue growth for Pennar Industries over next 2-3 years. We also believe that company’s margins which has started recovering from the lows of first half will slightly improve further and sustain at 12-12.2%.

At CMP of Rs. 54, shares of Pennar Industries are trading at 9.3X trailing P/E. We are valuing Pennar Industries at 10X FY19 EPS of Rs. 7.3 to arrive at our target price of Rs. 73 for the stock, representing an upside of 35% from the CMP.

**3-Yr Price comparison**





Pennar Industries Ltd.- Statement of Profit & Loss					
DESCRIPTION	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1306.7	1542.2	1768.7	2045.8	2259.2
EXPENDITURE :					
Raw Material Consumed	806.0	924.4	1075.7	1242.8	1376.1
Other Manufacturing Costs	186.9	252.4	263.0	301.6	333.5
Employee Cost	91.0	104.2	122.8	135.1	145.9
Other Operating Expenses	74.8	94.2	103.7	117.0	126.9
<b>EBITDA(Excl OI)</b>	<b>147.9</b>	<b>167.0</b>	<b>205.2</b>	<b>249.4</b>	<b>276.8</b>
<b>EBITDA Margin</b>	<b>11.3%</b>	<b>10.8%</b>	<b>11.6%</b>	<b>12.2%</b>	<b>12.3%</b>
Depreciation	18.9	25.4	29.2	32.3	35.0
<b>EBIT</b>	<b>129.1</b>	<b>141.6</b>	<b>175.9</b>	<b>217.2</b>	<b>241.9</b>
Other Income	3.4	7.3	15.9	7.6	7.6
Interest	38.4	61.0	67.4	69.4	69.6
<b>Exceptional Item</b>	<b>-</b>	<b>-</b>	<b>13.0</b>	<b>-</b>	<b>-</b>
<b>PBT</b>	<b>94.0</b>	<b>87.9</b>	<b>137.4</b>	<b>155.4</b>	<b>179.9</b>
Provision for Tax	35.8	29.3	47.6	53.6	62.1
Minority Interest	-14.4	-11.9	-20.2	-13.9	-16.5
<b>Profit After Tax</b>	<b>43.9</b>	<b>46.7</b>	<b>69.6</b>	<b>87.9</b>	<b>101.3</b>
<b>Earnings Per Share</b>	<b>3.6</b>	<b>3.9</b>	<b>5.8</b>	<b>7.3</b>	<b>8.4</b>

Pennar Industries Ltd.- Balance Sheet					
DESCRIPTION	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	60.2	60.2	60.2	60.2	60.2
Total Reserves	450.8	487.5	557.2	645.0	746.4
<b>Shareholder's Funds</b>	<b>510.9</b>	<b>547.7</b>	<b>617.3</b>	<b>705.2</b>	<b>806.5</b>
<b>Minority Interest</b>	<b>85.2</b>	<b>106.5</b>	<b>126.7</b>	<b>140.5</b>	<b>157.0</b>
Total Borrowings	266.9	307.3	290.1	277.4	253.1
Other Long Term Liabilities	36.1	43.2	46.1	49.0	51.4
<b>Total Non-Current Liabilities</b>	<b>303.0</b>	<b>350.5</b>	<b>336.2</b>	<b>326.4</b>	<b>304.5</b>
Trade Payables	432.4	438.1	469.5	536.8	589.3
Other Current Liabilities	90.3	114.4	131.2	151.7	167.6
<b>Total Current Liabilities</b>	<b>522.7</b>	<b>552.5</b>	<b>600.7</b>	<b>688.6</b>	<b>756.9</b>
<b>Total Liabilities</b>	<b>1421.8</b>	<b>1557.1</b>	<b>1680.9</b>	<b>1860.7</b>	<b>2024.9</b>
Fixed Assets	466.8	470.7	513.6	556.8	588.8
Other Non Current Assets	16.8	25.1	28.8	33.4	36.8
<b>Total Non-Current Assets</b>	<b>483.7</b>	<b>495.9</b>	<b>542.4</b>	<b>590.2</b>	<b>625.7</b>
Current Investments	33.2	35.3	35.3	35.3	35.3
Inventories	256.7	399.1	439.1	485.3	536.6
Sundry Debtors	383.2	388.4	451.1	507.1	561.5
Cash and Bank	170.9	78.3	58.7	58.7	58.7
Other Current Assets	94.1	160.1	154.2	184.1	207.1
<b>Total Current Assets</b>	<b>938.1</b>	<b>1061.2</b>	<b>1138.5</b>	<b>1270.5</b>	<b>1399.2</b>
<b>Total Assets</b>	<b>1421.8</b>	<b>1557.1</b>	<b>1680.9</b>	<b>1860.7</b>	<b>2024.9</b>



Pennar Industries Ltd.- Cash Flow					
DESCRIPTION	FY16	FY17	FY18	FY19E	FY20E
PBT + Depreciation	109.5	106.0	137.8	180.0	207.2
Tax Paid	-35.8	-29.3	-47.6	-53.6	-62.1
Changes in Working Capital	70.9	-66.9	-80.1	-45.8	-61.5
<b>Cash Flow from Operations</b>	<b>144.6</b>	<b>9.8</b>	<b>10.1</b>	<b>80.7</b>	<b>83.7</b>
<b>Cash Flow from Investing</b>	<b>-265.0</b>	<b>-2.7</b>	<b>-67.9</b>	<b>-67.9</b>	<b>-59.4</b>
Proceeds from Equity	52.4	0.0	0.0	0.0	0.0
Free Cash Flow	-68.0	7.1	-57.8	12.8	24.3
<b>Debt (Repaid)/ Borrowed</b>	<b>113.9</b>	<b>-0.3</b>	<b>-17.2</b>	<b>-12.8</b>	<b>-24.3</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	FY18	FY19E	FY20E
EBITDAM (%)	0.1	0.1	0.1	0.1	0.1
ROE (%)	9.6	8.8	12.0	13.3	13.4
ROCE (%)	15.8	16.1	18.6	21.3	22.8
Inventory Turnover(x)	4.3	3.6	3.2	3.3	3.3
Debtors Turnover(x)	3.6	4.0	4.2	4.3	4.2
Creditors Turnover(x)	3.2	2.7	2.9	3.1	3.0
Fixed Asset Turnover (x)	2.1	2.1	2.3	2.4	2.5
Receivable days	101	91	87	85	86
Inventory Days	85	102	114	109	109
Payable days	116	135	124	119	120
Total Debt/Equity(x)	0.5	0.6	0.5	0.4	0.3
Current Ratio(x)	1.8	1.9	1.9	1.8	1.8
Adjusted P/E Ratio	14.8	13.9	9.3	7.4	6.4
Price/ Book value	1.3	1.2	1.1	0.9	0.8



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