

Background & Business

Pennar's standalone business is divided into SBUs across segments such as Steel Products (21% of cons revs & 8% of cons EBITDA as per 9MFY17 nos), Tubes (11%, 8%), Industrial Components (4%, 5%) & Systems & Projects (27%, 30%). The Consolidated entity comprises of 2 subsidiaries in addition to standalone entity; namely, Pennar Engineered Building Systems (PEBS; 33%, 32%) & Pennar Enviro (PEL; 7%, 7%). PEBS is present in segments such as Pre-Engineered Buildings, Custom designed Steel Structures & Engineering Services while PEL is into water treatment solutions, water treatment chemicals & fuel additives.

Investment Thesis

- a) **Tubes and Systems & Projects business continue to steer top-line growth** (Tubes segment is expected to see faster revenue growth going ahead led by 25% increase in installed capacity which will come on-stream by Mar'17. Proportion of higher-margin CDW tubes has been growing continuously in the total pie. Order book for Solar & Railways segments continues to remain strong & PEBS continues to add new customers in both sub-segments. As specified by management, the solar sector in India is seeing capacity expansion across companies indicating robust potential going ahead.
- b) **PEBS powering up led by Engineering Services Division (ESD)** (Higher-margin ESD saw growth of 18% in number of billable hours & its revenues increased by 16% in Q3FY17. PEBS has seen repeat orders from its clients, comprising half of its total orders, & is seeing improvement in order enquiry in solar, airports, warehousing, & high-rises. Baroda plant is currently working at full capacity (1,000MT); however, it can be scaled to 3,000 MT with minimal capex.
- c) **PEL listing could provide considerable value unlocking** (After successfully unlocking value through listing of its subsidiary PEBS, we expect that PEL, too could follow similar path. Listing of PEL, when it happens, could lead to considerable value unlocking for investors of Pennar & offer investors a chance to participate in growing water infrastructure story in India.
- d) **Lowly leveraged balance sheet provides scope for debt-driven growth & expansion** (Gross consolidated D/E ratio of 0.6xs and Net consolidated D/E ratio of 0.40xs as on 30th September, 2016)

From : 26-03-2014
 To : 28-02-2017
 Performance : 115%
 Recommendation : OPEN

Outlook

Pennar is poised to benefit from revival in corporate / Govt capex given that it has necessary capacity & capability to execute projects of considerable size in capex-heavy sectors. It is one of the few companies in the industry that have low debt, healthy growth in profitability despite weak operating environment & continuously growing contribution from high margin value added products. Post its successful listing, PEBS has MCap of Rs. 4bn while Pennar, which owns 53.98% in PEBS has MCap of Rs. 5.2bn, indicating that Pennar is significantly under-valued at CMP (Rs.43), which implies scope for further growth in stock price.

