Research Report

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India Construction and Building Materials

Interarch Building Products - Management Interactions KTAs

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Flash Analysis

We recently interacted with the management of Interarch Building Products to understand the company's business operations, outlook and growth prospects.

- Interarch Building Products Ltd incorporated in 1983 provides pre-engineered steel construction solutions 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").
- Interarch has worked with a strong clientele like Grasim Industries, Berger Paints, Asian Paints, Hyundai Motors, Tata motors, Timken India, Addverb Technologies and many more.
- Interarch recently raised funds through an Initial Public Offering (IPO). The total offer comprised 6,672,169 equity shares of face value Rs10 each at an issue price of Rs900 per share comprising fresh issue of 2,224,539 equity shares aggregating to Rs2bn and an offer for sale for 4,447,630 equity shares aggregating to Rs4bn. The shares got listed on BSE, NSE on August 26, 2024.
- As of Sept'24, the company has an aggregated installed capacity of 161,000tn with presence across North and South of India while West is under development. The company is present across different end use sectors covering Industrial/Manufacturing construction (68% revenue share in FY24), Infrastructure (30% revenue share) and balance 1% from other building construction.
- The size of PEB market in India stood at ~Rs195bn in FY24 and is likely to grow at 10-12% over next five years as per industry estimates. Top 6 players in the industry occupy 80-85% of the industry and Interarch has about 6.5% market share.
- Over FY19-24, the company as delivered a revenue, EBITDA and PAT CAGR of 13%, 50% and 66%, respectively. The rapid expansion in EBITDA and PAT has been on account of EBITDA margin expansion from 2.1% in FY19 to 8.7% in FY24. During 1HFY25, the revenue grew by 6% YoY to Rs6,267mn, EBITDA and PAT growth of 17.9% and 18.4%, respectively.

Management aims to double revenue by FY28

Interarch's existing capacity stands at 161,000MT and post phase 2 expansion of the Andhra facility (by Mar'25) the company shall have a total installed capacity of 201,000MT which shall provide total revenue potential of Rs22bn. With further addition of Gujarat facility, the revenue potential is likely to increase by another Rs5bn. Thus, management intends to achieve a revenue of ~Rs24bn by March'28 which translates into a CAGR of 17% over FY24-FY28E with more room for growth at optimum utilization. The company provided a margin guidance of 9-10% and will aim to increase it through operating leverage. The average net working capital days are likely to be maintained at around 20-25days (net of customer advances). As on 28th October, the order book for the company currently stands at Rs13bn executable over 10months including orders from warehousing and battery cell plants. The pipeline also looks good for future expansion. For FY25, the company aims to achieve revenue in northwards of Rs14bn vs Rs12.9bn in FY24 and PAT higher than Rs1bn vs Rs0.86bn in FY24. The stock is currently trading at CMP of Rs1,545/- and at estimate of Rs1bn of PAT in FY25, it trades at PE of 27x on FY25 EPS of Rs58.2/-.

Other Insights from our interaction with management

Five stage process model – from designing to installation

Interarch Building Products engineers and designs buildings as per the customer requirements. The customer initially provides with a design blueprint for the structure it requires to Interarch and further the company with its in-house engineering team of 125 engineers executes the design into an actual building. Each building is unique and thereby the costing is done on the entire building post evaluation of the cost of inputs required. The business operates in a 5 stage model once the order is placed. i) Engineering and designing the idea on how to make the item. This requires highly skilled engineers and designers who have the capability to fulfill the client's requirements. ii) Procurement of inputs like steel, paint, hardware, etc. at best possible price and quality. iii) manufacturing of the entire building right from drilling, cutting to final painting which is done in-house in the factory. iv) the entire building structure is dispatched into ready-made parts to the location from the factory. v) Lastly, the parts are installed together at the location to form the entire structure. The installation of parts is done very fast as everything comes ready-made to the location.

Throughput maximization is the key

There is a pipeline even before the new order comes in called the 'priority pipeline'. Further it trickles down to order intake and then to the five stages of operation post order is placed. At each stage the company should have a well-balanced throughput. Entire throughput is known to the company at the end of the pipeline. There is a firm plan for manufacturing for about 45-50 days and tentative short term plan for atleast next 2-3 months. Moreover, slotting of the order also becomes important as delivering the order on time to the customer as per commitment is critical. The planning for this entire process is done 3-4 months well in advance as the plants should manufacture 24X7 to deliver the requirement on time.

Industry and Geography agnostic business

Pre-engineered buildings business is industry agnostic as it can cater to the requirements of real estate to various end user industries. Based on Interarch's clientele we can witness that the company caters to clients from various end user industries. The company has constructed manufacturing plants for various clients like Tata Motors, Tata electronics, Grasim Industries, Asian paints, Berger paints, setup warehousing facilities for Amazon, Decathlon, Amara Raja and many more. Moreover, the business is geographically agnostic as the building is dispatched in parts and can be transported to any location in the country. The company reports outward freight only 2% of the sales. Thereby, freight is not an issue for the company. With more capacities spread across countries it can further save around 1% of freight costs.

Well-balanced mix based on size of orders is important

Interarch helps the clients in the mid-stage of their project. The client first finalizes his own plan of architecture, layout, what to manufacture and when to manufacture then Interarch steps in. The timeline of orders varies on the basis of size of the building. For a smaller order of Rs100mn to Rs150mn the turnaround time (from order being placed to the bill out time) is around 5 months. For mid-sized projects of Rs250mn to Rs500mn the turnaround time is 6-8 months and larger projects of around Rs500mn to Rs1bn it takes around 10-12 months. The company generally prefers a mix of all size of orders and is not focused on specific size of order. Each size of project comes in with its own benefits to the company. The small and medium sized projects provide a quick turnaround time for the company. Similarly, the large sized projects offer advantage on savings in the fixed cost to the company. The order book mix stands around 30-40% of large sized projects, 40-45% of medium sized projects and remainder 20% of small-sized projects.

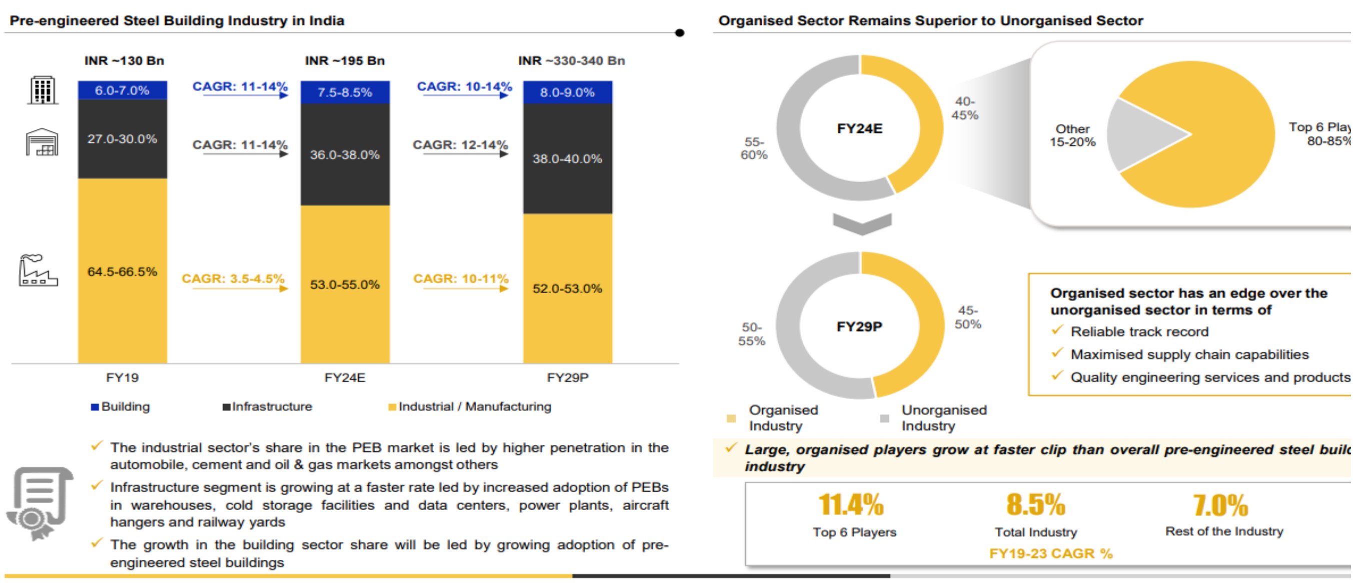
Input price risk is taken care through pass through

Interarch provides price quotation to the customers prior to get orders. The quotations are priced in two ways i) When the gestation period varies for various orders, the quotes have a validity of 15 days and is further re-validated until the negotiations go on. The prices may change on the basis of change in input prices like steel. Hence at the time of finalizing the order, the prices are quoted accordingly. ii) When the order is booked but the procurement of input is to happen later. In such cases, for large orders, the input eg. steel is linked to the base price (price during placement of the order). Hence this is a variable price contract wherein the customer can benefit if the steel prices go down while procurement against what was agreed initially. The orders with smaller size have fixed price contracts as the turnaround time is faster. The company maintains a two-month inventory of steel as it is not delivered overnight. Out of the total costing, steel is about 65%. Further 15% of costing includes the labor costs which are fixed and manufacturing expenses like electricity which are variable in nature. Here the company runs the risk if the plant loading is less, the cost of production on a per unit basis will go up as the manpower cost is fixed here. Hence the company should have an enough order book.

Fixed capital investment is not high; efficient on working capital

The company currently has an existing capacity of 161,000MT. There are 3 fully integrated capacities with 2 in North i.e. Pantnagar (installed capacity of 31,000MT) and Kiccha (installed capacity of 59,500MT). One facility is present in South i.e. Tamil Nadu (installed capacity of 50,500MT). The company has added one more capacity in Andhra Pradesh. The Phase 1 of 20,000MT for this facility is completed and trial production has started while the Phase 2 expansion has started which will add another 40,000MT. The Phase 2 expansion shall be completed by Mar'25 and the full plant shall be operational from Q1FY26. The company has also bought a land parcel in Gujarat to set up another facility. This facility is expected to be around 40,000MT and can be utilized for manufacturing heavy structures which the company is not doing currently. Every integrated plant/capacity has a revenue potential of Rs5bn and a fixed investment cost of around ~Rs0.7bn implying fixed asset turnover of 7x. The company is efficient on the working capital management. The average net working capital days for the company stands at 20-25 days (net of customer advances).

India's Pre-engineered buildings market overview

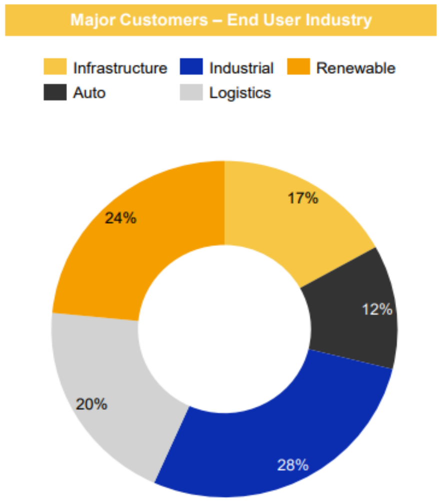


Source: Company, HTI Research

Interarch order book details

Order Wins	(Rs in Crs)
In Q2FY25	250
Post Q2FY25 (Till 28th October, 2024)	214
Total Order Wins	464

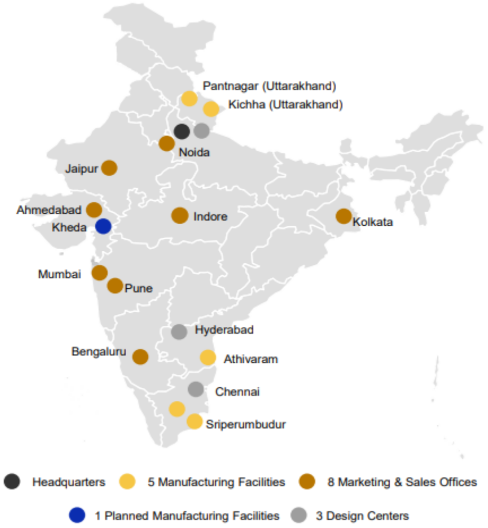
Order wins from Key Customers	
Vinplex India	Horizon Industrial Parks
Vallam Logistics Park	Airtech Composite India
Maccabee India	Avaada Venture
Brit Logistics	Ashirvad Pipes
Ashok Leyland	Amar Raja Infra



Total Order book as on October 28, 2024, is INR 1,303Cr.

Source: Company, HTI Research

Manufacturing facilities with installed capacities



Manufacturing Facilities

Facility	Set up Year	Installed capacity (MTPA)[1]	Utilizable capacity (MTPA)
Pantnagar Manufacturing Facility	2005	31,000	~26,000
Kiccha Manufacturing Facility	2008	59,500	~50,000
Tamil Nadu Manufacturing Facility I	2007	10,000	~8,500
Tamil Nadu Manufacturing Facility II	2009	40,500	~34,000
Andhra Pradesh Phase 1 (Commissioned)	2024	20,000	~17,000
Andhra Pradesh Phase 2 (Planned)	Jun-25	40,000	~32,000
Gujarat (Planned)	–	–	–
Total[1]		1,61,000	~1,35,500

Design & Engineering Centers

- ✓ Supported by dedicated design and engineering centers in Noida, U Pradesh; Chennai, Tamil Nadu and Hyderabad, Telangana
- ✓ In-house design and engineering team of 119 qualified struct design engineers and detailers[4]
- ✓ Computer aided design technologies including Staad Pro, M FrameCad, Tekla, Auto Cad and ZWCAD

Project Management

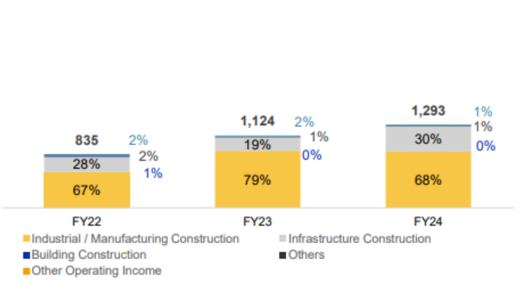
- ✓ Dedicated team of 49 project managers, augmented by a network o empanelled and approved builders / erectors
- ✓ Established dedicated safety & quality control teams to oversee e stage of the erection process

Vertically integrated manufacturing operations with presence across the product lifecycle of PEBs – estimation, designing, engineering & fabrication of PEBs, on-site project management of the installation and erection of PEBs

Source: Company, HTI Research

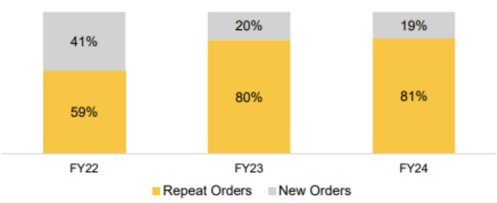
Diverse customer base

Revenue from Operations by End-use Sectors

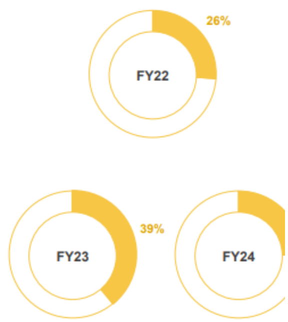


Repeat Orders as a % of Revenue from Operations[1]

Diverse Customer Groups featuring in Repeat Orders



Revenue from Top 5 Customer Group



3 of top 5 Customer Groups h been associated with our Company for over 5 years

Key Customers

ADITYA BIRLA GRASIM | Berger | Adverb Technologies | Indian AC manufacturing company | Global manufacturer of bearings & power transmission products | Indian logistics & supply chain company

Industrials | Infrastructure

Considering the critical nature of the use cases of PEBs, customer standards, requirements and required service levels are stringent and accordingly, consider the quality, durability and reliability of PEBs as essential to maintaining customer relationships

Source: Company, HTI Research

Consolidated Income statement (Rs mn)

Y/E March	FY22	FY23	FY24	1HFY25
Total Income from Operations	**8,349**	**11,239**	**12,933**	**6,267**
Change (%)	44.9	34.6	15.1	6.0
COGS	5,648	7,325	8,238	3,815
Employees Cost	892	934	1,190	687
Other Expenses	1,465	1,973	2,376	1,242
Total Expenditure	**8,006**	**10,231**	**11,803**	**5,744**
% of Sales	95.9	91.0	91.3	91.7
EBITDA	**344**	**1,008**	**1,130**	**523**
Margin (%)	4.1	9.0	8.7	8.3
Depreciation	118	73	80	45
EBIT	**226**	**935**	**1,050**	**478**
Int. and Finance Charges	86	26	22	10
Other Income	85	180	130	79
PBT bef. EO Exp.	**226**	**1,090**	**1,159**	**548**
EO Items	0	0	0	0
PBT after EO Exp.	**226**	**1,090**	**1,159**	**548**
Total Tax	55	275	296	138
Tax Rate (%)	24.2	25.2	25.6	25.3
Minority Interest	0	0	0	0
Reported PAT	**171**	**815**	**863**	**410**
Adjusted PAT	**171**	**815**	**863**	**410**
Change (%)	166.2	375.5	5.9	18.4
Margin (%)	2.1	7.2	6.7	6.5

Source: HTI

Consolidated Balance sheet (Rs mn)

Y/E March	FY22	FY23	FY24	1HFY25
Equity Share Capital	150	150	144	166
Total Reserves	3,033	3,843	4,302	6,597
Net Worth	**3,183**	**3,993**	**4,446**	**6,764**
Total Loans	30	108	97	172
Deferred Tax Liabilities	25	59	57	32
Capital Employed	**3,237**	**4,160**	**4,601**	**6,968**
Gross Block	1,634	1,762	1,887	2,507
Less: Accum. Deprn.	116	187	256	355
Net Fixed Assets	**1,518**	**1,575**	**1,631**	**2,152**
Total Investments	**0**	**50**	**54**	**56**
Curr. Assets, Loans&Adv.	**4,003**	**5,362**	**6,037**	**8,853**
Inventory	1,341	1,370	1,468	1,918
Account Receivables	857	1,587	1,708	1,669
Cash and Bank Balance	918	1,192	1,377	3,857
Loans and Advances	887	1,214	1,484	1,418
Curr. Liability & Prov.	**2,283**	**2,828**	**3,247**	**4,103**
Account Payables	805	1,037	1,336	1,441
Other Current Liabilities	1,160	1,370	1,466	2,640
Provisions	319	422	446	22
Net Current Assets	**1,720**	**2,534**	**2,790**	**4,750**
Misc Expenditure	0	0	0	0
Appl. of Funds	**3,237**	**4,160**	**4,601**	**6,968**

Source: HTI

Key Ratios

Y/E March	FY21	FY22	FY23	FY24
Basic (INR)				
EPS	**3.9**	**10.3**	**49.0**	**51.8**
Cash EPS	9.1	17.4	53.3	56.6
BV/Share	180.1	191.3	239.9	267.2
Valuation (x)				
P/E	399.4	150.1	31.6	29.8
Cash P/E	169.6	89.0	29.0	27.3
P/BV	8.6	8.1	6.4	5.8
EV/Sales	4.3	3.0	2.2	1.9
EV/EBITDA	187.7	72.2	24.4	21.6
FCF per share	20.2	13.4	10.6	33.9
Return Ratios (%)				
RoE	2.4	5.5	22.7	20.4
RoCE	3.9	7.6	22.8	20.3
RoIC	1.8	7.3	26.7	26.2
Working Capital Ratios				
Fixed Asset Turnover (x)	3.4	5.1	6.4	6.9
Asset Turnover (x)	1.9	2.6	2.7	2.8
Inventory (Days)	62	59	44	41
Debtor (Days)	44	37	52	48
Creditor (Days)	45	35	34	38
Leverage Ratio (x)				
Current Ratio	1.9	1.8	1.9	1.9
Interest Cover Ratio	0.9	2.6	36.0	48.6
Net Debt/Equity	-0.2	-0.3	-0.3	-0.3

Source: HTI (* Per share figures are calculated on diluted basis)

Consolidated Cash flow statement (Rs mn)

Y/E March	FY22	FY23	FY24	1HFY25
OP/(Loss) before Tax	226	1,090	1,159	548
Depreciation	118	73	80	45
Interest & Finance Charges	32	12	8	3
Direct Taxes Paid	-80	-198	-303	-156
(Inc)/Dec in WC	-60	-585	-50	-404
CF from Operations	**235**	**392**	**893**	**963**
Others	27	-79	-78	-156
CF from Operating incl EO	**262**	**313**	**815**	**808**
(Inc)/Dec in FA	-39	-136	-252	-338
Free Cash Flow	**223**	**176**	**563**	**470**
(Pur)/Sale of Investments	96	-114	-167	-1,792
Others	34	61	91	-2
CF from Investments	**91**	**-190**	**-328**	**-2,132**
Issue of Shares	0	0	-390	1,968
Inc/(Dec) in Debt	14	80	-12	-13
Interest Paid	-13	-12	-8	-2
Others	-3	-5	-48	79
CF from Fin. Activity	**-1**	**63**	**-458**	**2,032**
Inc/Dec of Cash	**351**	**185**	**29**	**708**
Opening Balance	50	401	587	616
Closing Balance	**401**	**587**	**616**	**1,323**

Source: HTI

APPENDIX

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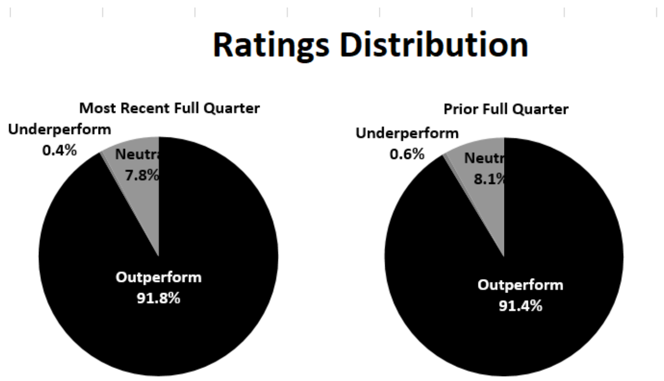

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