

DECEMBER 12, 2024

Management Meet Update

Stock Details

Market cap (Rs cr)	:	2674
52-wk Hi/Lo (Rs)	:	1810/ 1110
Face Value (Rs)	:	10
3M Avg. daily vol (cr nos)	:	299,678
Shares o/s (cr)	:	1.7

Source: Capitaline, BSE

Financial Summary

Y/E Mar (Rs cr)	FY22	FY23	FY24
Revenue	835	1,124	1,293
Growth (%)	44.9	34.6	15.1
EBITDA	37	111	120
EBITDA margin (%)	4.4	9.8	9.3
PAT	17	81	86
Diluted EPS	10.3	49.0	51.8
EPS Growth (%)	175.0	366.9	35.2
BV (Rs/share)	225	282	314
Dividend/share (Rs)	0.0	0.0	0.0
ROE (%)	5.4	20.4	19.4
ROCE (%)	8.3	26.8	25.8
P/E (x)	-	-	31.1
EV/EBITDA (x)	-	-	18.3
P/BV (x)	-	-	5.1

Source: Capitaline, Kotak Securities – PCG, Company

INTERARCH BUILDING PRODUCTS LTD.

PRICE RS. 1611

NOT RATED

Interarch Building Products Ltd (IBP) is one of the leading turnkey pre-engineered steel construction solutions providers in India with integrated facilities. Its steel building solutions are utilised across three main sectors including industrial (69% of FY24 revenue), infrastructure (30% of FY24 revenue) and building applications. The company has strong track record of 40 years in Pre-Engineered Buildings (PEB) business and provides one stop solution for its clients. PEBs are gaining acceptance in India for their speed, cost-effectiveness, and ability to integrate into complex industrial setups. These are primarily catered to manufacturing plants, warehouses, data centers, and renewable energy sectors. In India, PEB industry has grown at 8% CAGR in FY19-24 to Rs19500 cr and projected to grow at 12% CAGR to Rs34000 cr by FY29 (Source: Company PPT). The company adopted variable pricing contracts during periods of high volatility in its key raw material and expects sustainable margin of 8-9%. IBP has strong balance sheet with negative net debt of ~Rs127cr and ROE/ROCE of 19.4%/25.8% at the end of FY24. We do not have any rating on the stock.

Key Highlights

- ❑ **Strong track record of 40 years in PEB:** IBP founded in 1983, is one of the leading turnkey pre-engineered steel construction solutions providers in India with integrated facilities. The company specializes in PEB, offering steel-based customized structures for various industrial and commercial applications. The company has comprehensive in-house capabilities from design and engineering to manufacturing and installation. Its steel building solutions are utilised across three main sectors including 1) industrial (69% of FY24 revenue), 2) infrastructure (30% of FY24 revenue) and 3) building applications. IBP has strong execution track record and has completed 677 execution of PEB Contracts from FY15 to FY24.
- ❑ **Provides one stop solution for its clients in PEB:** IBP provides single-point responsibility for customers, ensuring no intermediaries. It provides a comprehensive service by eliminating the need for multiple contractors or vendors. The company mostly caters to privates sector clients. It tailors each building to specific industry requirements. The company reduces project timelines by up to 50% compared to traditional methods.
- ❑ **Growing acceptance of PEBs for various applications:** PEB have a global presence, widely adopted in the USA, Europe, Middle East, and China and finds applications across industry. In India, PEB industry has grown at 8% CAGR in FY19-24 to Rs19500 cr and projected to grow at 12% CAGR to Rs34000 cr by FY29. PEBs are gaining acceptance for their speed, cost-effectiveness, and ability to integrate into complex industrial setups. These are primarily catered to manufacturing plants, warehouses, data centers, and renewable energy sectors. It is best suited especially for time-critical projects like data centers, renewable energy plants, hospitals, high-rises, and multi-story commercial spaces for which there is growing demand.
- ❑ **Prudent Raw material procurement strategy:** IBP uses raw materials like hot-rolled plates, galvanized coils, and color-coated sheets for building

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components such as columns, beams, and cladding. It has strong relationship with major steel suppliers like JSW Steel, Tata Steel, and ArcelorMittal and receives credit terms. In order to protect against raw material volatility, the company adopted variable pricing contracts during periods of high volatility. This protects the company from unexpected price fluctuations, ensuring margins are maintained. Further, the company maintains 2-3 months of raw material inventory to buffer against short-term price spikes or supply chain disruptions and also ensuring a steady pipeline of raw material availability. These strategies have helped stabilize margins at 9-10%.

- ❑ **Payment terms ensure smooth cash flow and reduce financial risk:** IBP follows structured payment terms for its contracts, designed to ensure smooth cash flow and reduce financial risk. Typically, 20% of the total contract value is paid upfront by the customer against advance bank guarantee. This ensures initial working capital to begin the project activities. Post that payments are tied to the project milestone. The payment terms ensure substantial payment before dispatch of materials to the site. Further, there is a 5% retention which is released by the customer on submission of performance guarantee for a period of 12 months post-completion.
- ❑ **Inhouse manufacturing spread across location:** IBP has second largest aggregate installed capacity of 161,000 MTPA among integrated PEB players in India. It has five manufacturing facilities in Uttarakhand, Andhra Pradesh & Tamil Nadu and one planned facilities in Gujarat. In order to meet its growth targets, the company plans to set up a new facility in Gujarat focused on heavier steel structures, targeting infrastructure projects like highways, ports, and metro systems.
- ❑ **Strengthening position against competitors:** IBP has over 40 years in architectural products and 24 years in PEBs and has second largest integrated capacity in India. The company competes against major players like Kirby Building Systems, Zamil Steel, Pennar Engineered Building Systems, etc. Over the years, the company has established long-standing partnerships with top Indian and global companies. The company competes on quality, capability, and delivery timelines rather than pricing alone as against its competitors. It focuses on projects with high engineering complexity where IBP has a competitive edge. It has robust design and engineering team with over 125 professionals which ensures quality and timely delivery. Over the years, the company has delivered challenging and large-scale projects for groups like Tata, Reliance, Aditya Birla Group, etc barring the marquee ones like the Delhi Airport Terminal 3.
- ❑ **Aims to ride on private capex:** IBP is a play on private capex. During 2004 to 2009, IBP grew 10x in five years, fueled by rapid industrial expansion and limited competition. Performance took a toll due to economic downturn of 2009-2013. This also led to shift in company's strategy, by focusing on top 100 companies. Over the last 5 years, the growth rate was 12-13% CAGR, which is somewhat modest compared to emerging industry opportunities, due to covid led disruption. The management has highlighted about achieving 10% (Rs1400cr+)/15-20% revenue/PAT growth in FY25, respectively. In the long run, IBP aims to double revenue in four years, driven by higher industry adoption and it's positioning among large clients. The company sees potential in data centers and high rise buildings, besides traditional industrial and infra, to contribute significantly to its growth journey.

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	– We expect the stock to deliver more than 15% returns over the next 12 months
ADD	– We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	– We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	– We expect the stock to deliver < -5% returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
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NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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