

Interarch Building Products Ltd. (INTERARC IN)

Structured for success

INDIA | SMALLCAP | INITIATING COVERAGE REPORT

Why we like the company:

- The company is the second largest player (by capacity) in the pre-engineered building (PEB) space with a capacity of ~1,61,000 tonne per annum. In FY24 the company enjoyed a market share of ~6.5% in India. The company is well poised to grow given 1) strong capex cycle 2) robust customer base 3) healthy order inflow 4) increasing capacity 5) increasing penetration of PEBs across all segments.
- The PEB industry is estimated to grow by a CAGR of 11-12% over FY24-29. The company is the fastest growing player in the industry and we estimate that their topline will grow at a CAGR of 19% over FY24-27E. Historically, the company has outpaced the industry and peers by ~2.5x and ~2x over FY19-23 respectively.
- The company's current facilities have a revenue potential of Rs. 20 bn. The company is undertaking a fresh round of capex to increase their capacity to ~2,00,000 MTPA by end of FY26. This new capacity will give them an overall revenue potential of ~Rs. 25 bn. The proposed capex is ~Rs. 0.7 bn and has an asset turnover of 6-7 times
- As of October 28, 2024 the company had a robust order book of ~Rs. 13bn which is to be executed within 8-10 months. The company is winning orders across segments and have a healthy mix in terms of customers and quantum. Additionally, in January 2025 the company has won two orders worth Rs. 2.2 bn from Tata Projects Ltd.
- The management aspires for operating margins in the low double digits (~10-11%) in the next few years, up from the current levels of ~8.5%. The biggest driver for margins would be operating leverage led by improving capacity, large orders wins, better cost absorption.
- Financial Performance:** The Company has a debt free balance sheet and healthy cash on books to gain incremental large orders. Further, the company has high return ratios and we expect the ROE and ROCE to be 20.6% and 22.5% in FY27E, respectively. We are estimating a revenue/EBITDA/PAT CAGR of 19%/23%/27% over FY24-27E.

Outlook and view:

Interarch Building Products Limited (IBPL) is the fastest growing focused player in the Indian PEB market. The company is seeing strong demand for their products given 1) good industrial tailwinds 2) a shift from unorganized players to organized players 3) high design and execution capabilities 4) strong balance sheet and 5) larger ticket size orders. The company is actively looking for areas where they can replace the use of concrete structures and is in the process of setting up capacities and partnerships to enter into the heavier structure segment. We are estimating a revenue/EBITDA/PAT CAGR of 19%/23%/27% over FY24-27E. We have valued the business at 20 times FY27E earnings of INR 106.9/- share, we initiate coverage on Interarch Building Products Ltd with a BUY Rating and have arrived at a price target of INR 2137.8/-, implying 34% upside from current level.

Key Consolidated Financials

	Rs Mn									
Year end	Net Sales	EBIDTA	PAT	EPS, Rs	P/E	EV/EBIDTA	P / BV	ROE	ROCE	
FY24	12933	1130	863	59.8	NA	NA	NA	19.4%	23.1%	
FY25E	14428	1229	993	59.7	26.8	17.7	4.9	18.2%	20.1%	
FY26E	18035	1697	1396	83.9	19.1	12.8	3.9	20.4%	22.6%	
FY27E	21642	2094	1779	106.9	15.0	10.4	3.1	20.6%	22.5%	

Source: Company, PhillipCapital India Research

24 January 2025

BUY

CMP Rs 1595.6

TARGET Rs 2137.8 (+34%)

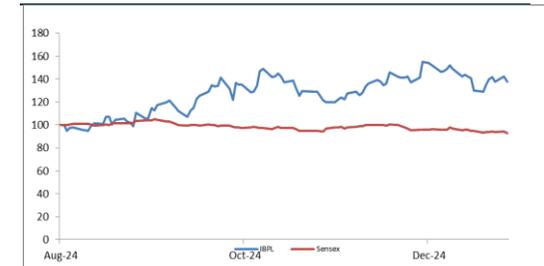
COMPANY DATA

O/S SHARES (MN) :	16.6
MARKET CAP (RSMN) :	23001.4
MARKET CAP (USDMN) :	268.8
52 - WK HI/LO (RS) :	1925/1110
TRADING VOL. 3M:	88.1
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	59.9
FI / FPI :	5.9
FI / MF / AIF :	6.9
PUBLIC & OTHERS :	27.3
As on December 24	

PRICE Vs. SENSEX



Source: PhillipCapital India Research

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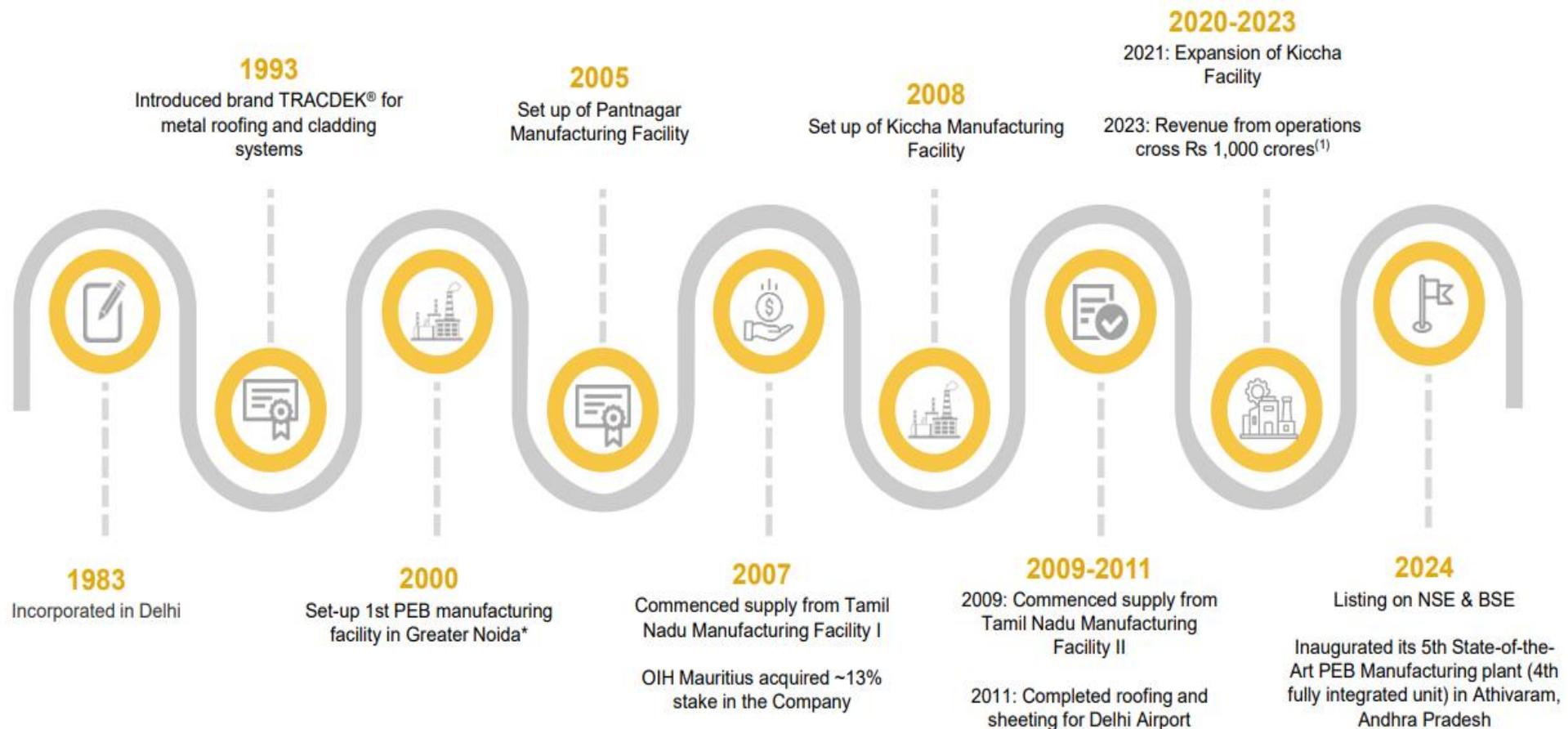
Raunaq Sabharwal (+ 9122 6655 0075)

rsabharwal@phillipcapital.in

Company Background:

Interarch Building Products Limited (IBPL) commenced its operations in 1983, and has been involved in the high-end metal interior products market in India. IBPL provides solutions, right from metal ceilings, to blinds, metal roofing to pre-engineered buildings.

The company is one of the leading turnkey pre-engineered steel construction solution providers in India with integrate facilities for design and engineering, manufacturing, on-site project management capabilities for the installation and erection of pre-engineered steel buildings.



Source: Company, PhillipCapital India Research

Revenue Profile:

The company has one business segment i.e. Pre-Engineered Buildings, however, the segment can be further bifurcated by the end user industry. IBPL supplies across all three sectors i.e. industrial/manufacturing, infrastructure construction and building construction with a primary focus towards the industrial/manufacturing space.

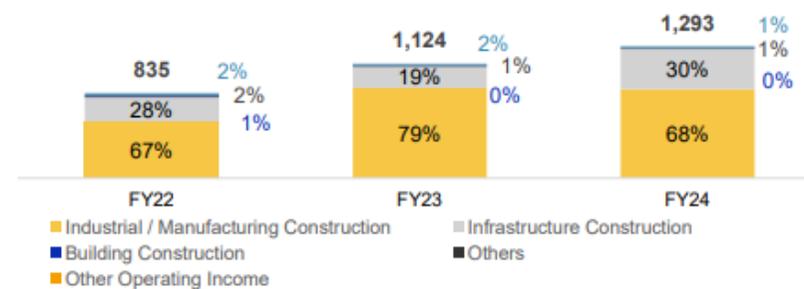
Revenue from Operations (Rs crs)



Revenue from Operations by End-Use Sector



Revenue from Operations by End-use Sectors

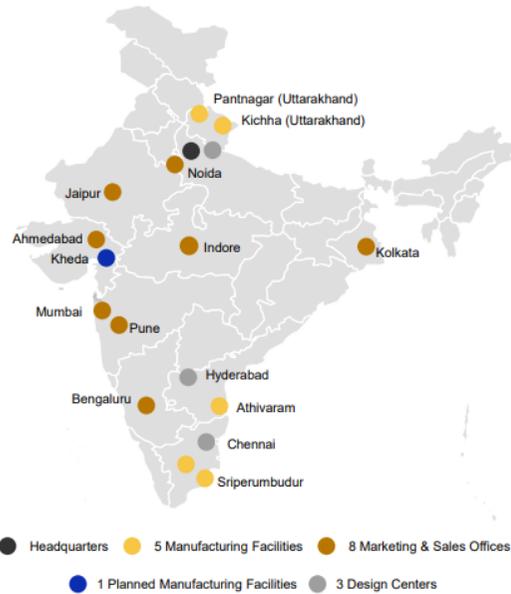


Source: Company, PhillipCapital India Research

Plants:

IBPL has 5 manufacturing facilities located primarily in the North & South of the country. The existing plants have an installed capacity of ~1,61,000 MTPA and, the company plans to expand its capacity to ~2,00,000 MTPA by FY26. This new capex will be brownfield in Andhra Pradesh and in Kichha. The company has also acquired land in Gujarat for further expansion.

The utilizable capacity tends to range between 80-85% of the installed capacity and the existing capacity of ~1,61,000 has a revenue potential of ~Rs. 20 bn.



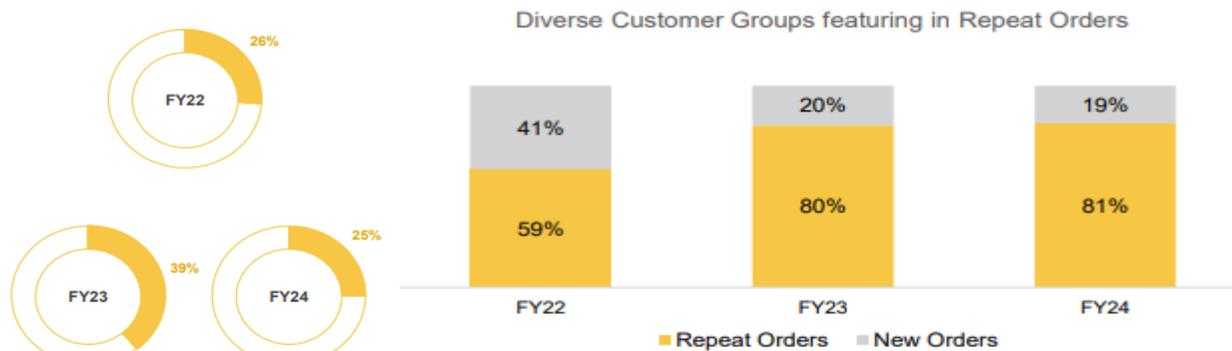
Manufacturing Facilities			
Facility	Set up Year	Installed Capacity (MTPA)	Utilizable Capacity (MTPA)
Patnanagar Kichha	2005	31,000	~26,000
Tamil Nadu Facility -I	2008	59,500	~50,000
Tamil Nadu Facility -II	2007	10,000	~8,500
Andhra Pradesh Phase 1	2009	40,500	~34,000
Andhra Pradesh Phase 2 + Kichha Expansion (Planned)	2024	20,000	~17,000
Gujarat(Planned)	NA	40,000	~32,000
	NA	NA	NA

Source: Company, PhillipCapital India Research

Key Clientele:

The company has a diverse clientele base and services both domestic and international customers in designing and installing PEB across the country. Their clientele includes large business groups such as Tata, Reliance, Aditya Birla, etc and smaller companies as well.

Revenue from Top 5 Customer Groups • **Repeat Orders as a % of Revenue from Operations⁽¹⁾**



Source: Company, PhillipCapital India Research

Raw Materials:

The key raw material in PEB is steel which makes up for around 60-65% of the total cost. The company maintains a steel inventory of 2 months to deal with fluctuations in steel prices, and maintain inventory for larger orders. The design & engineering typically make up around 10-15% of the total cost and the balance cost is overheads. The company does certain portion of their manufacturing via job workers.

Key Competitors:

The Indian PEB market is composed of both organized & unorganized players where the organized players constitute almost 40-45% of the market. However, even among the organized players the top 6 players contribute to ~80-85% of the market. Interarch is the second largest player in the PEB segment and competes with the other top players such as Kirby Building Systems, Pennar Industries, Everest Industries, M&B Engineering, etc.

Management Background:

<u>Name</u>	<u>Designation</u>	<u>Background</u>
Mr. Arvind Nanda	Managing Director	Mr. Arvind Nanda is responsible for overall business decisionmaking and financial oversight of operational management. He has a Bachelor’s degree in Commerce (Honours) from University of Delhi, New Delhi, India and has been admitted as an associate of the Institute of Chartered Accountants in England and Wales.
Mr. Gautam Suri	Whole-time Director	Mr. Gautam Suri is responsible for critical technical business decisions. He has nearly 30 years of experience in the pre-engineered steel buildings industry with the company. He has a Bachelor’s degree in technology in mechanical engineering from Indian Institute of Technology Delhi, New Delhi India.
Mr. Viraj Nanda	Non-Executive Director	Mr. Viraj Nanda has been associated with the company since 2017 and is involved in the day to day operations and looks after exports, strategic partnership and investor relations. He has a Bachelors’ degree in tourism and hospitality management from William Angliss Institute, Melbourne, Australia and Diploma in CAD from CADD Centre Training Services, New Delhi, India.
Mr. Ishaan Suri	Non-Executive Director	Mr. Ishaan Suri is a part of the Board of Directors and provides strategic inputs on branding and positioning for the company. He is currently running his own company and is not actively involved in the management. He has a Bachelor’s degree in science from the London School of Economics and Political Science, University of London, London, United Kingdom.
Mr. Manish Kumar Garg	CEO	Mr. Manish Kumar Garg has Diploma in civil engineering from the Board of Technical Education, Delhi, India and has completed a senior executive leadership program from Havard Business School, Boston, Massachusetts, United States. He was previously associated with Everest Industries Limited and Safal Building System Limited
Mr. Pushpendra Kumar Bansal	CFO	Mr. Puspendra Kumar Bansal has a Bachelor’s degree in commerce from Ajmer University, Rajasthan, India and has been admitted as a fellow of the ICAI. He was Previously associated with Action Construction Equipment Limited, Omax Autos Limited, Jakson Limited and Microtek International Private Limited

Source: Company, PhillipCapital India Research

IPO

IBPL got listed in August 2024 and its IPO was mix of fresh issue and an OFS. The proceeds from the fresh issue are primarily used for their future expansion plans, working capital requirements and upgradation to SAP Hana. The company already had a healthy balance sheet however, the incremental cash on books will further strengthen the balance sheet and allow them to bid for bigger orders. The IPO price was set at Rs. 850-900 per share.

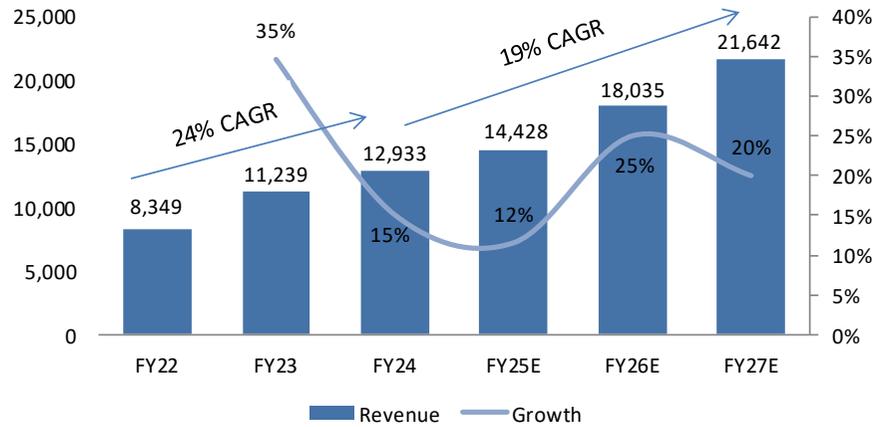
Usage of IPO Proceeds

Particulars	Amount to be Used (Rs. mn)
Financing the capital expenditure towards setting up the Project	585
Financing the capital expenditure towards upgradation of the Kichha Manufacturing Facility, Tamil Nadu Manufacturing Facility I, Tamil Nadu Manufacturing Facility II and Pantnagar Manufacturing Facility	192
Funding investment in information technology assets for upgradation of existing information technology infrastructure of our Company	114
Funding incremental working capital requirements	550
General Corporate Purpose	430
Total	1870

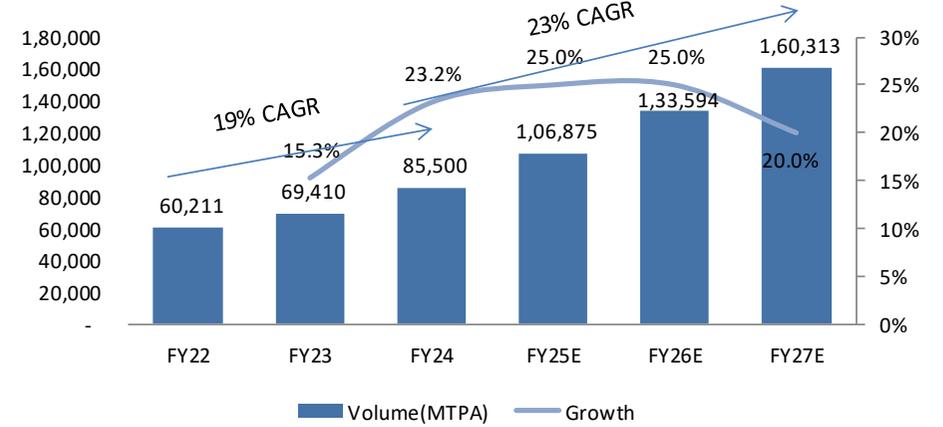
Source: Company, PhillipCapital India Research

Story in charts:

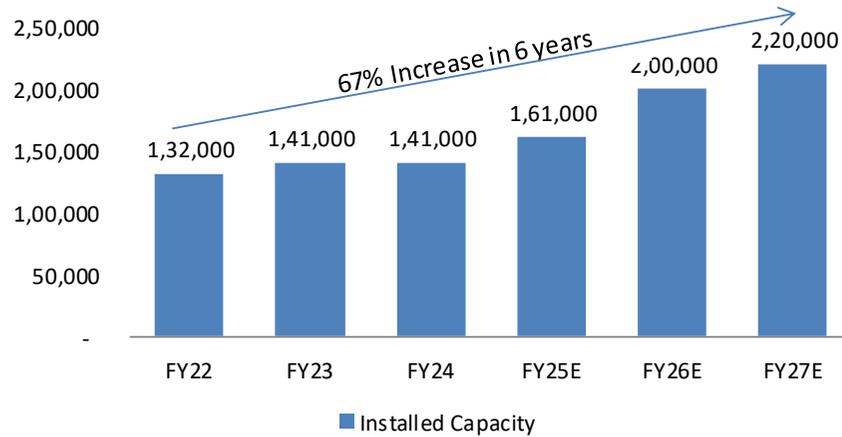
Revenue Trend



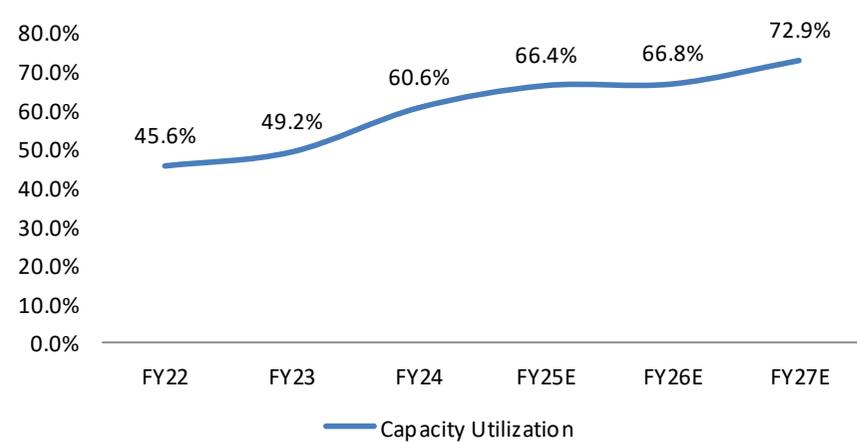
Volume Growth Trend



Installed Capacity



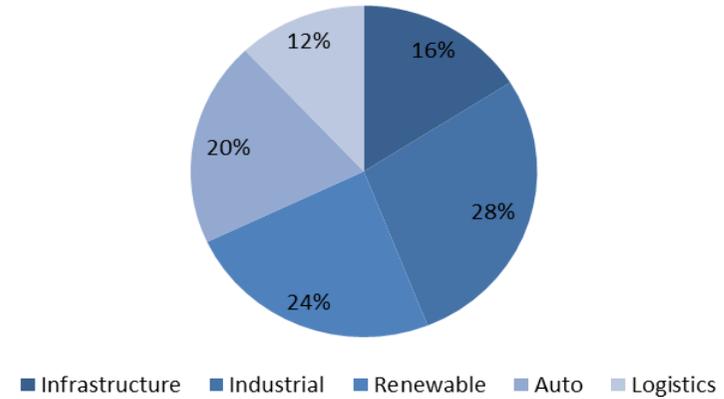
Capacity Utilization



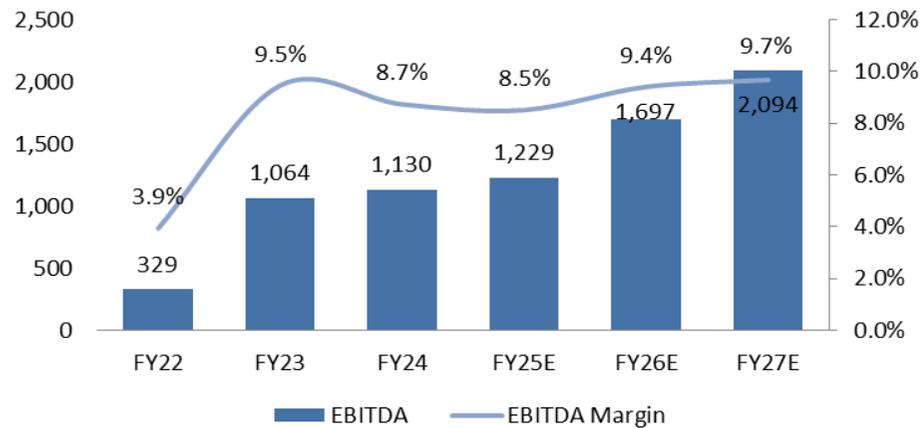
Source: Company, PhillipCapital India Research

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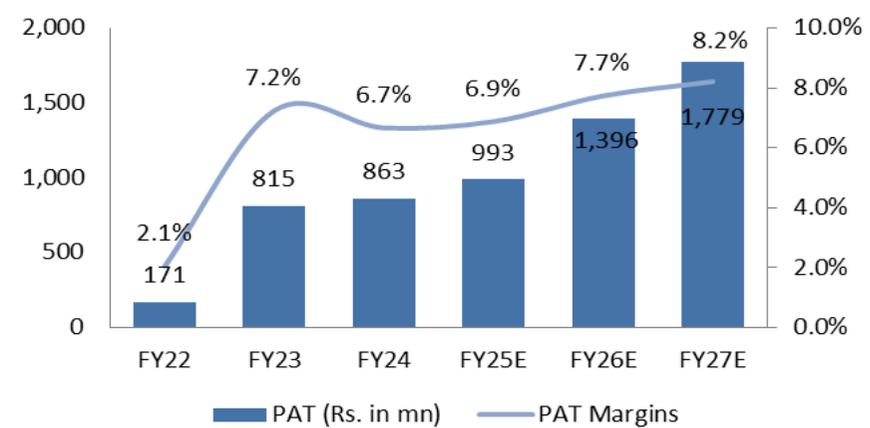
Well diversified order book



EBITDA & EBITDA Margin

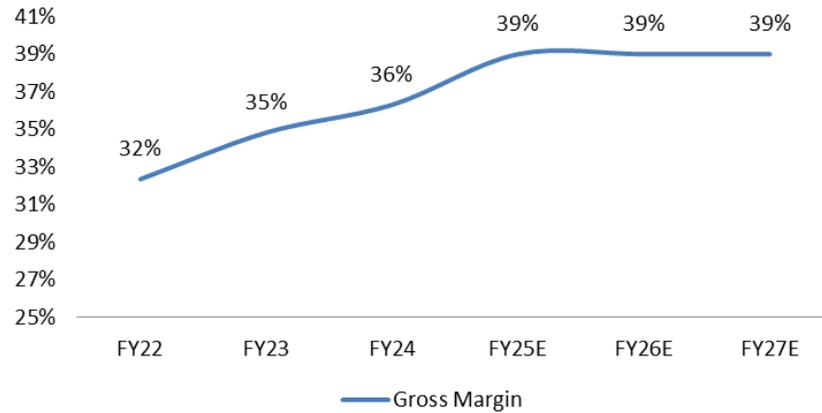


PAT & PAT Margin

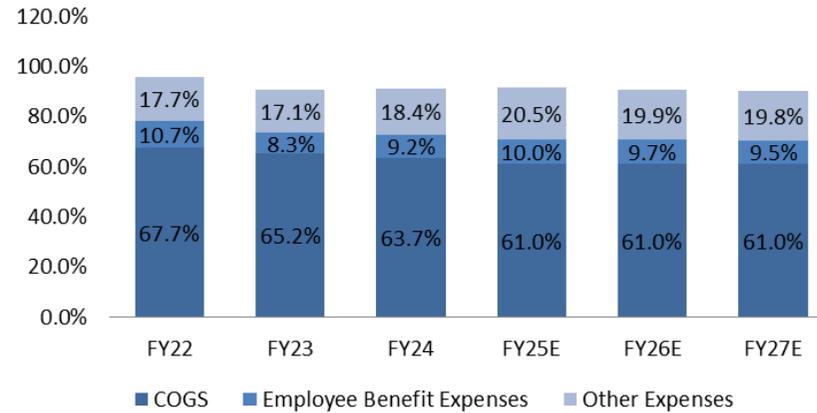


Source: Company, PhillipCapital India Research

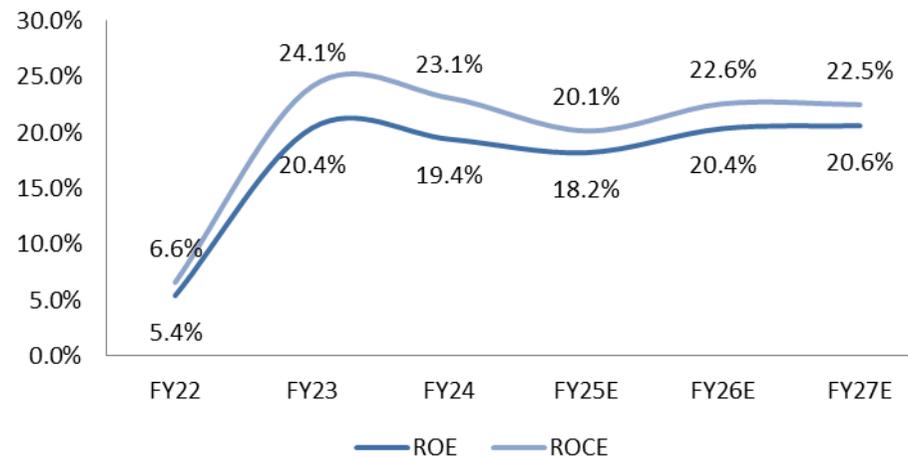
Gross Margin



Expenses Trend



Return Ratios

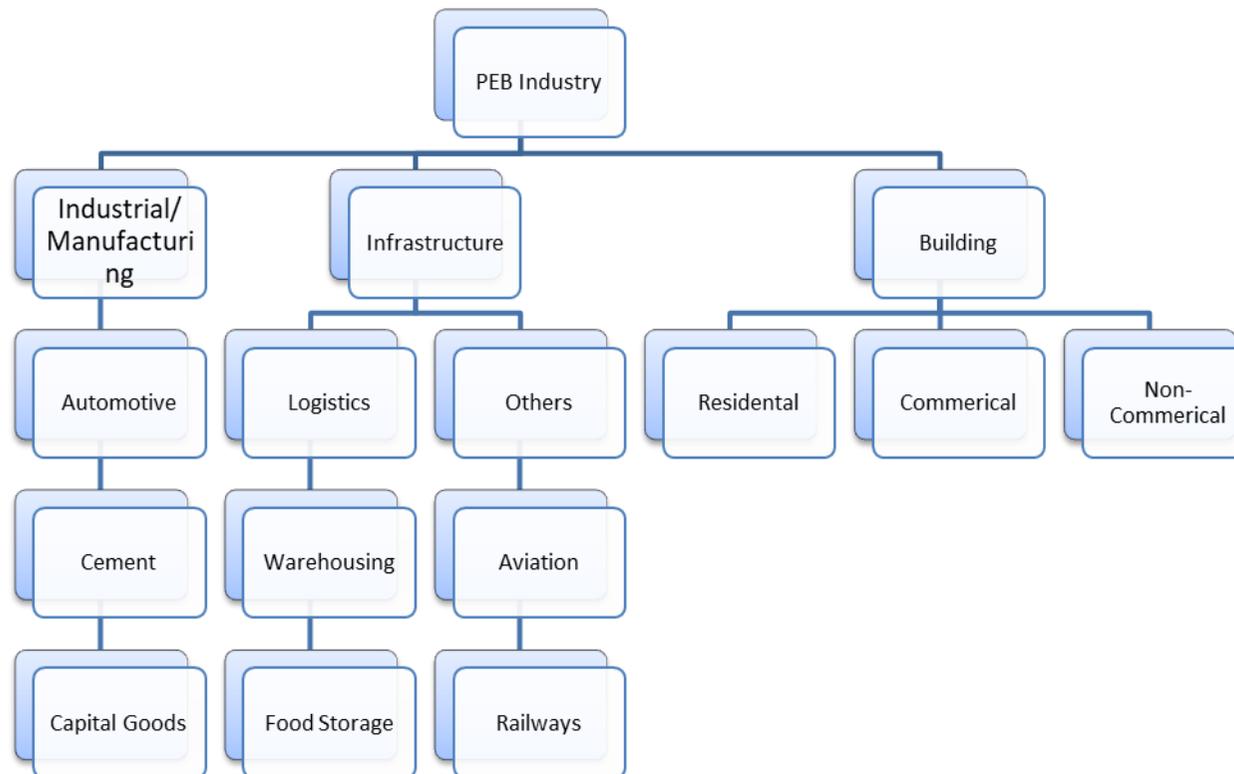


Source: Company, PhillipCapital India Research

Industry Overview:

Pre-Engineered Buildings are structures that are made in factories and assembled on-site. They are used in various facets of the construction industry, such as industrial, infrastructure and buildings. PEB is widely used in areas such as manufacturing facilities, warehouses, airports, etc due to their quick setup time and lower cost.

Application of PEB



Source: Company, PhillipCapital India Research

1. Industrial

In the industrial sector, PEb structures are extensively used in setting up manufacturing facilities for various sectors like 1) Automotive 2) Cement 3) Engineering and Capital Goods

PEB Automotive Manufacturing Facility



Source: Company, PhillipCapital India Research

2. Infrastructure

The infrastructure segment is the biggest user of PEBs. Here PEBs are used in areas like 1) Aviation 2) Metros 3) Railways for transportation and extensively in warehousing.

PEB Warehouse



Source: Company, PhillipCapital India Research

PEB in Aviation



3. **Building Constructions**

PEB structures are used to make smaller buildings which typically reach up to 50 meters. In building construction PEBs are used in commercial, non-commercial and residential use cases.

PEB Office Building



Source: Company, PhillipCapital India Research

Comparison between PEB and RCC Structures

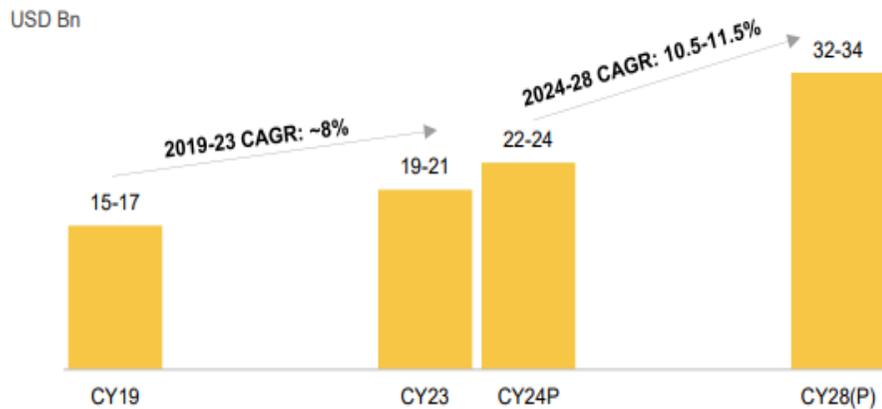
	Pre-Engineered Buildings	RCC
Cost Efficiency	Lower overall cost due to less material cost, labour cost and time taken	Higher overall cost due to material needed, labour required and time needed
Cost Difference	The overall cost can be up to 15-35% lower for conventional structures like sheds, warehouses, etc.	For building structures depending on the design and utility the traditional structures can be 20-25% cheaper.
Time Taken	Since the structures are made in a factory and are only assembled at the location, the time taken is significantly lesser.	Here, the time needed for construction, foundation and concrete is more.
Raw Materials	Keep raw materials in PEB is steel.	For RCC the key raw material concrete and steel bars.
Applications	Used primarily in infrastructure and industrial units	Used across construction(residential & commercial), infrastructure and industrial projects

PEBs offer a significant cost savings when compared to traditional structures. Since the manufacturing is done in a controlled environment via standardized processes there is better quality control, making PEB a preferred choice for companies. PEB steel structures have been gaining traction over the past few years given their cost benefits and shorter construction time.

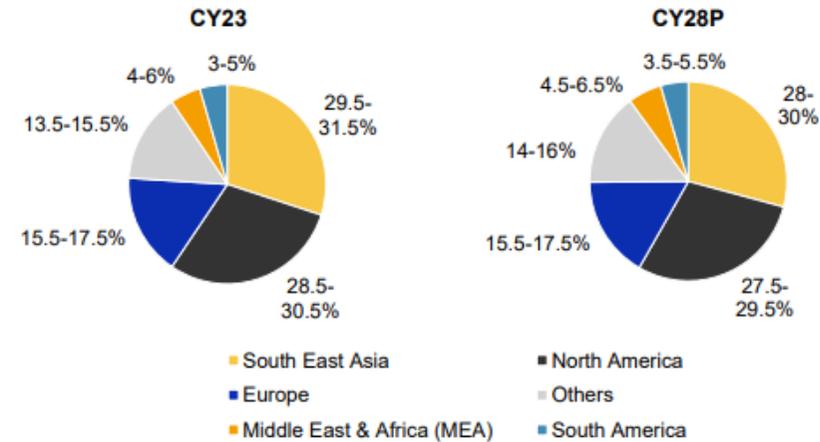
Global PEB industry

As per CRISIL the size of the PEB industry globally is estimated to be ~\$19-20 bn. South East Asia leads the industry with a ~29.5-31% market share followed by North America which has a 28.5-30% share. The industry is poised to grow at a CAGR of ~10.5-11.5% over FY24-28 to ~\$32-34 bn.

Global Pre-engineered Steel Buildings Market



Key geographies in global pre-engineered steel building in CY23 and CY28P



Source: Company, PhillipCapital India Research

Indian PEB Industry

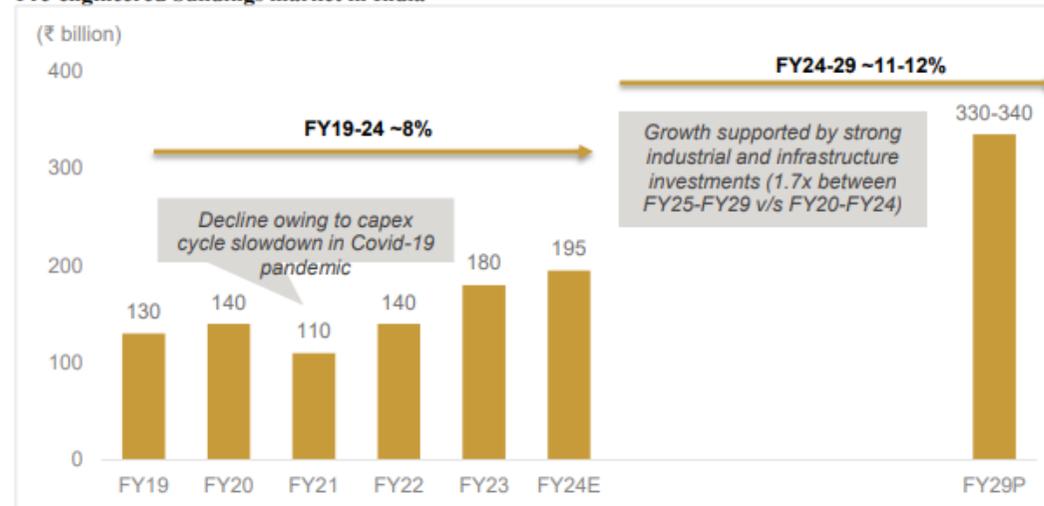
In India, the PEB segment started in the late 90's/early 2000's post the liberalization of the Indian economy. However, this segment started to gain traction only in 2005-2010 when there was a strong fixed capital formation, which led to the increased acceptance by customers. The Indian PEB stagnated during 2010-15, when there was a slowdown in the Indian economy. Post 2015, the industry has seen good growth barring the covid years where there was a slowdown in capex. As the capex cycle has picked up again, the industry has started growing rapidly.



Source: Company, PhillipCapital India Research

As per CRISIL MI&A, the Indian PEB market is estimated to be ~Rs. 180-190 bn in FY24 and is expected to grow at CAGR of ~11-12% over FY24-29. This growth will be driven by a burgeoning construction sector, increasing penetration across segments and favorable government initiatives. Over the period 2019-2023 the Indian PEB market grew at a CAGR of ~8.0% from ~INR 130 bn in 2019 to ~INR 180 bn in FY24.

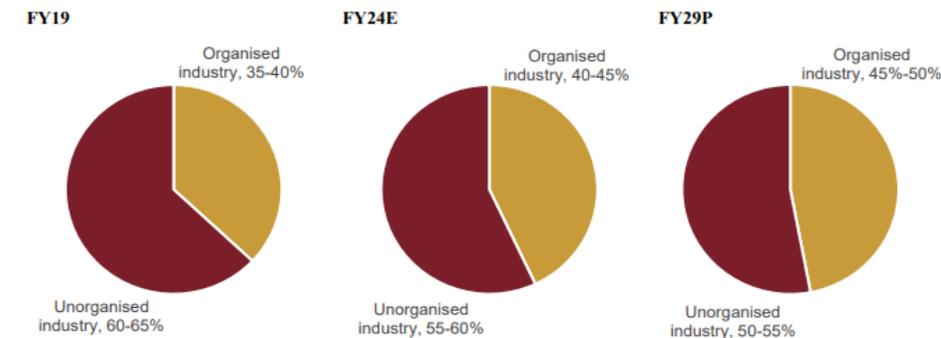
Pre-engineered buildings market in India



Source: Company, PhillipCapital India Research

The Indian PEB market can be further subdivided into the organized and unorganized players with organized players constitutes almost ~40-45% of the market in FY24. This split of organized to unorganized was 35-40% to 60-65% in FY19 and is expected to change from 45-50% to 50-55% by FY29. In the organized Indian PEB market, the top 6 players made up 80-85% of the market while the others made up only 15-20%. Over the next few years, the organized players will continue to grow at a faster pace than the industry and lead a shift in penetration.

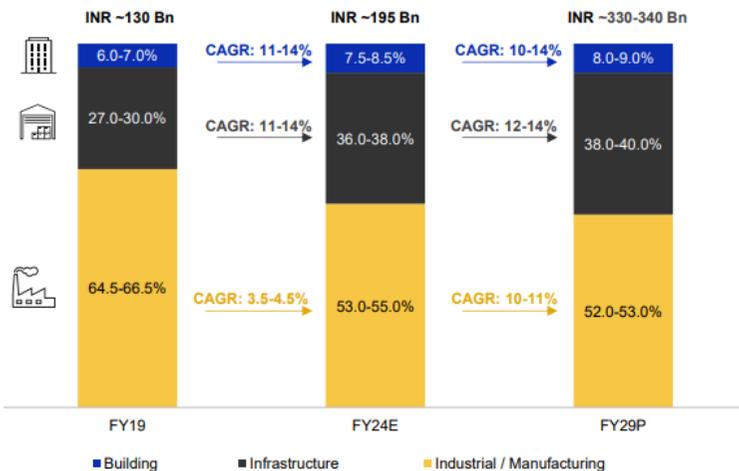
Share of organised and unorganised sectors in PEB



Source: Company, PhillipCapital India Research

The PEB market can also be split into the industrial, infrastructure and building construction segments with the industrial segment constituting the biggest share i.e. ~53-55% in FY24, followed by the infrastructure segment at 36-38%. The industrial segment is poised to lead the next leg of growth and is estimated to grow at a CAGR of 12-14% over FY24-29, while the industrial and building construction segments are estimated to grow at a CAGR of ~10-11% and ~10-14% over the same period respectively.

Pre-engineered Steel Building Industry in India



Source: Company, PhillipCapital India Research

This growth will be led by the automobile, cement, oil & gas segments for the industrial segment and by warehouses, cold storage, data center, power plants, aircraft hangars, railway yards, etc in the infrastructure segments.

Investment Argument:

Pure-play Player with industry leading growth

IBPL has historically been the **fastest growing major player in the PEB industry** and has **outpaced both the industry and its peers by 2.4x and 2.2x** respectively. While the **industry has grown at 8%** over the period FY19-23 and their **peers have grown at a CAGR of 8.8% to 23%** between FY22-24, **IBPL has grown by 24.5%** in the same period. Going forward, we estimate that IBPL will **continue to outpace the industry**, the **PEB industry is projected to grow at a CAGR of 11-12%** between FY24-29 however the **management is guiding for a CAGR topline growth of 15-20% over the same period**.

What will lead this growth?

The Indian Capex Story

Over the past few years Indian capex has started to pick up again with heavy investments being made by both the government and private organizations. The expenditure spans across segments including railways, roads, power generation, construction, etc, and also new age technologies like data centers, renewable plants, etc.

Government Capex

The budgetary support for capex expenditure grew by 28% in FY24 to ~Rs. 18.6 tn with a focus on areas like road transportation and highways, housing, railways, logistics, power generation, water resources, etc. There has been a significant boost on infrastructure capex over the past few years.

Industrial Spend

India is witnessing a fresh capex cycle similar to the one seen during 2000-2009. Between FY19-23 the overall **industrial capex grew by ~6.5%**. As per CRISIL, the **average industrial capex is set to rise to Rs. 6.5 tn per annum between FY24-28 up 1.7x from FY19-23** where the **average spend was Rs. 3.9 tn**. Additionally the government has come up with several schemes and incentive plans in order to promote manufacturing in the country. With a focus on Make in India, multiple PLI schemes have been launched for areas like automotive, drones, textiles, white goods, etc. PEB being an efficient method of setting up manufacturing facilities is poised to be one of the biggest beneficiaries of such schemes.

As the adoption of PEB gets more and more mainstream it will lead to faster incremental growth. Though there has been slowdown in capex in FY2025, we expect this cycle to start picking up soon. There are tailwinds across sectors like power generation, logistics, data centers, semiconductors, etc leading the way for growth.

Some of the biggest sectors driving growth going ahead will be

1. **Automobile sector:** All major OEMs are planning to add capacities across ICE and EV technologies. In order to meet the increasing demand from OEMs, the auto ancillary companies will also add capacities. PEBs are already widely used as manufacturing facilities by the automotive industry. The government has also put in place a PLI scheme for the automotive sector which will further drive their growth

2. **Renewables:** As India aims to significantly enhance its power generation capabilities via renewables, there will be significant capacity addition in areas like solar and wind energy. It is estimated that a total 290-300 GW of renewable capacity will be added by FY30. In order to support this aim, the substantial capex will be needed. CRISIL estimates that there will be **capex of ~RS. 30.3 tn between in FY24-30** in this space.
3. **Warehousing and Cold Storage:** With an increase in both e-commerce and quick commerce, the demand for both warehouses and cold storages is set to rise drastically. PEBs make up for a substantial amount of warehouses and will be one of the biggest beneficiaries of this growth. **PEB penetration** in warehouses stood at **~37-40% in FY23** and is expected to **increase to ~60% by FY28**.
4. **Data Centers:** With localization norms for data by RBI and the GOI coming into place and the advent of AI, the data center requirement of the country is set to rise. CRISIL expects the installed data center capacity to **increase from 780MW in FY23 to ~1700MW by FY26**.

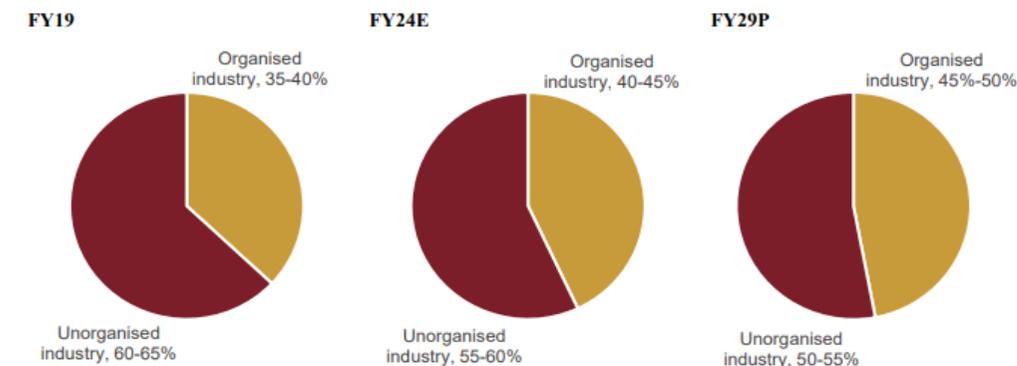
IBPL is well positioned to capitalize on the available opportunities, and has added capacities and people in order to be ready. They already have a strong customer base across these sectors showing their strong design and execution capabilities. Further, the management is seeing good opportunities in the heavy structure segment for areas like data centers and multi-storey buildings. The company has entered into a partnership with Jindal Power and Steel Limited and will also be setting up a dedicated facility in Gujarat for the same.

Shift from Unorganized to Organized

There has been a **structural shift in the PEB segment** with the share of the **unorganized sector reducing from 60-65% in FY19 to 55-60% in FY24**. CRISIL estimates that there will be a further shift away from the unorganized and the share of unorganized players will **drop to 50-55% by FY29**. This shift in market share is primarily on account of the increasing acceptance of PEBs and better execution of large players. As the organized players have added more capacity and achieved the scale to execute large projects, given the time and cost-effective nature of PEB structures, they are becoming a preferred method of setting up facilities.

IBPL has a **robust set of customers** which includes major business groups like **Reliance, Tata Group, Aditya Birla Group**, etc which along with their strong balance sheet position allows them to gain traction faster than the industry and their peers.

Share of organised and unorganised sectors in PEB



Source: Company, PhillipCapital India Research

Even with the current market size of Rs.180 bn, even a 5% shift in penetration would result in Rs. 9 bn opportunity for the organized players. At the estimated **Rs. 330 bn market size** in FY29 this would result in a **Rs. 16.5bn opportunity**. Given IBPL strong execution capabilities, sufficient capacities, etc they are well placed to get a big piece of this pie.

Faster than the Rest

Company	Background	Capacity (MTPA)	Expansion plans (MTPA)	Number of Plants	Segmental Revenue (Rs. in mn)	CAGR FY22-24	Segmental Profit (Rs. in mn)	Segmental Profit Margin
Kirby Building Systems and Structures India Private Limited	Kirby Building Systems & Structures India Pvt Ltd is engaged in the business of manufacture and construction of Pre-Engineered Buildings/ Steel Structural / Industrial Racking and components of iron and steel. It executes projects across multiple industries, including industrial, commercial, agriculture and infrastructure. Kirby is a 100% subsidiary of Kuwait-based Alghanim Industries, which has experience of more than 40 years in PEB industry	2,00,000	1,00,000	3	22,108	13.2%	1,694.30	7.7%
Interarch Building Products Limited	Interarch Building Products Ltd has 40+ years of experience in pre-engineered steel construction related to design, manufacture, logistics, supply and project execution. It has worked with industry players in project development and construction, providing support to industrial, commercial and infrastructure projects.	1,61,000	40,000	5	12,933	24.5%	862.6	6.7%

<p>Pennar Industries Limited</p>	<p>Pennar Industries Ltd has experience of over 48 years in offering multiple products/ services, including PEBs and structural steel buildings across sectors such as commercial and high rises, industrial and distribution facilities, health and education buildings, and stadium and leisure centres, etc.</p>	<p>90,000</p>	<p>Yes</p>	<p>1</p>	<p>15,839</p>	<p>23.1%</p>	<p>1,463.50</p>	<p>9.2%</p>
<p>Everest Industries Limited</p>	<p>Everest Industries Ltd is a pre-engineered steel building manufacturer in India and has ~90 years of experience in supporting industrial projects, warehousing infrastructure, multi-storey process buildings, composite structures and pipe racks, among others.</p>	<p>54,000</p>	<p>18,000</p>	<p>2</p>	<p>4,213</p>	<p>14.8%</p>	<p>47.7</p>	<p>1.1%</p>
<p>M&B Engineering Limited</p>	<p>M&B Engineering Ltd is an engineering solutions provider for construction of steel structures in India, engaged in the manufacturing of pre-engineered buildings (PEBs), self-supported steel roofing solutions and structural steel components. The group provides turnkey solutions for engineering and infrastructure projects. The company deals in pre-engineered buildings, structure steels, steel roofing and components thereof.</p>	<p>1,03,800</p>	<p>NA</p>	<p>2</p>	<p>5,802</p>	<p>8.8%</p>	<p>NA</p>	<p>NA</p>

Source: Credit Ratings, M&B Engineering RHP, Company, Industry, PhillipCapital India Research

The company is actively ramping up capacity and has plans to add an additional 40,000 MTPA by FY26. This will narrow the gap between them and the largest player Kirby. Once this capacity addition is completed the company will have almost double the capacity of the next player M&B Engineering. Given their large capacity and strong balance sheet IBPL will be able to win larger orders and service a broader range of customers.

IBPL is one of the only pure-play PEB companies amongst its peer group and this will remain the sole focus for the management for the foreseeable future. Going ahead the company plans to continue capitalizing on this segment given the robust demand environment. We see the company's financial metrics improving on most fronts with strong growth coming in on both the revenue and profitability.

Capitalizing on Capabilities

Zooming Ahead – Gaining Market Share

Interarch is a leading player in the PEB market and had a **~6.5% market share** (up from 6.1% in FY23) in FY24 in India. **Over FY22-24 IBPL has grown at revenue CAGR of 24% outpacing the industries growth of 10-11% during the same period.** The company has been able to outpace the industry growth on account of their 1) robust execution capability of IBPL 2) strong customer base 3) burgeoning infrastructure and industrial spend 4) shift from unorganized to organized sector. With an **uptick in the capex cycle** and **increase expenditure on logistics**, IBPL being the second largest player is well poised to reap the benefits. The company has added capacities and ramped up hiring in order to be well placed to capitalize on the opportunities available due to increased industrial spend.

The company is **witnessing strong demand** from across country however **North India is going to be the biggest contributor to their growth** going ahead. The management expects that **North India business will grow by ~50% in 2025-26.** This would be led by order pipeline from Uttar Pradesh. The management expects **North India to contribute 30% of their topline** over the next few years. North India currently contributes ~20% to the topline. This sharp uptake in growth is on account of heavy industrialization happening in the North.

Building Teams

In order to be ready for the increasing demand, the company has **focused on developing teams and capabilities** over the past few years. They current have **119 qualified design engineers up from ~95 in FY22.** This has enabled them to win larger orders. The company has started hiring engineers to gear up for their next phase of expansion. When adding capacities IBPL ensures that they have the design team in place so that there is no roadblock in expansion. This strategy has allowed them to hit close to optimal utilization in their new plant in Andhra Pradesh within 6 months of commissioning. The company is already in the process of adding ~40,000 MTPA by FY26.

Healthy Working Capital and Strong Balance Sheet

The company has a healthy working capital cycle of ~35 days which further benefits from the advance payments they receive for larger orders. The company receives up to **20% of the contract amount as advance** payments. **Large orders typically run for a period of 8-10 months** and utilize a significant amount of capacity. Hence, it is not viable for the company to only accumulate large orders. While the company does benefit on the operating leverage front from large orders keeping a healthier mix of small and large order allows for better working capital management.

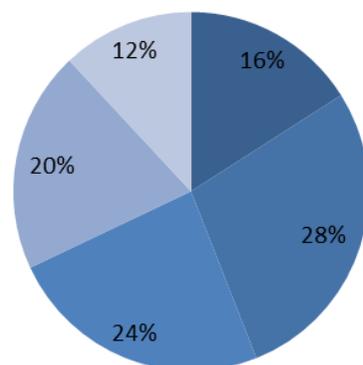
The company has historically been debt free and does not plan to add any debt to its balance sheet for the foreseeable future. As of H1FY25, IBPL had a cash bank balance of ~Rs. 3.9 bn which allows them to bid for bigger order. A healthy cash position gives customers the confidence that the company will be able to execute their orders and have the cash to support the operations given the longer tenure of these orders.

Winning more and more

As on October 28th, 2024 the company had a **healthy order book of ~Rs. 13 bn.** This order book has an execution timeline of 8-10 months and is growing steadily as the company acquires new business and scales its capacity. Given the strong order book and healthy order pipeline the company has **good visibility for FY26.** The company is seeing a robust order pipeline which amounts to **~Rs. 40-50 bn.**

In January 2025, the company has won **two additional orders** cumulatively worth **Rs. 2.2 bn from Tata Projects Limited**. These orders are for setting up PEB structures for manufacturing facilities for TATA Semiconductor Assembly & Testing Pvt Limited and Agratas Energy Storage Solutions Pvt. Ltd.

Well diversified order book



■ Infrastructure ■ Industrial ■ Renewable ■ Auto ■ Logistics

Source: Company, PhillipCapital India Research

The company is focused on diversifying its order book and having a healthy mix between small and large orders. A diversified order book allows for better execution capabilities and a healthier working capital cycle. The current order book is roughly **60:40** with **60% of the orders being small in size**.

Sr. No.	Company	Order Value (Rs. in bn)
1	Tata Projects Limited (2 projects)	2.1
2	Reliance Industries	1.1
3	Ampin Solar	0.6
4	Amaraja Infra	0.5
5	Ashok Leyland	0.3

Source: Company, PhillipCapital India Research

Entry into Heavier Structures

The company plans to enter into a new PEB sub-segment of heavier structures. Here, the company is looking to build **multistory buildings, data centers** and certain other products. The company has **acquired land in Gujarat for this initiative** and plans to set up capacities over there. In December 2024, IBPL entered

into a strategic partnership with Jindal Power and Steel Ltd (JSPL). This arrangement will leverage the use of IBPLs strong design, engineering and manufacturing capabilities and JSPLs heavier structure manufacturing capabilities.

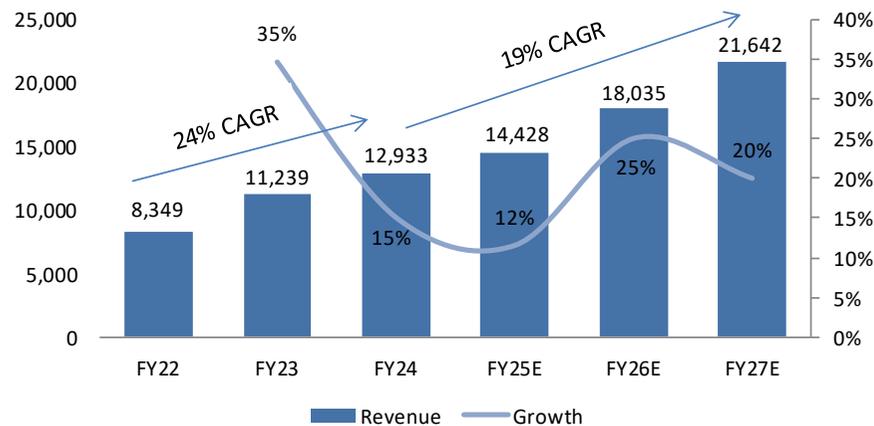
In-house Design, Outsourced Manufacturing

The company is also exploring ways to **leverage its strong design capabilities** in a manner where it will just to the **design of the projects** and **outsource the manufacturing** to a third party. As per the management roughly **10% of the work done is outsourced** but as the company scales up the percentage contribution to the topline from this segment will reduce.

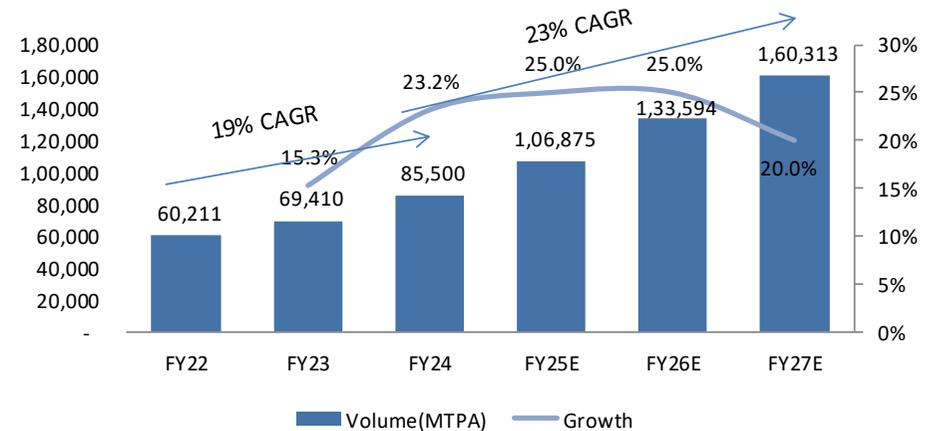
Strong Revenue Growth, Stronger Volume Growth

We estimate that the company will grow its topline at a **CAGR of 19% over FY24-27E**. We have not factored in any revenue from the strategic tie up with JSPL and the design focus in our projections. While we have seen a slowdown in the CAGR growth in revenue this is primarily on account of a reduction in steel prices, during the same period we see **volumes growing at a CAGR of 23%**.

Revenue Trend



Volume Growth Trend



Source: Company, PhillipCapital India Research

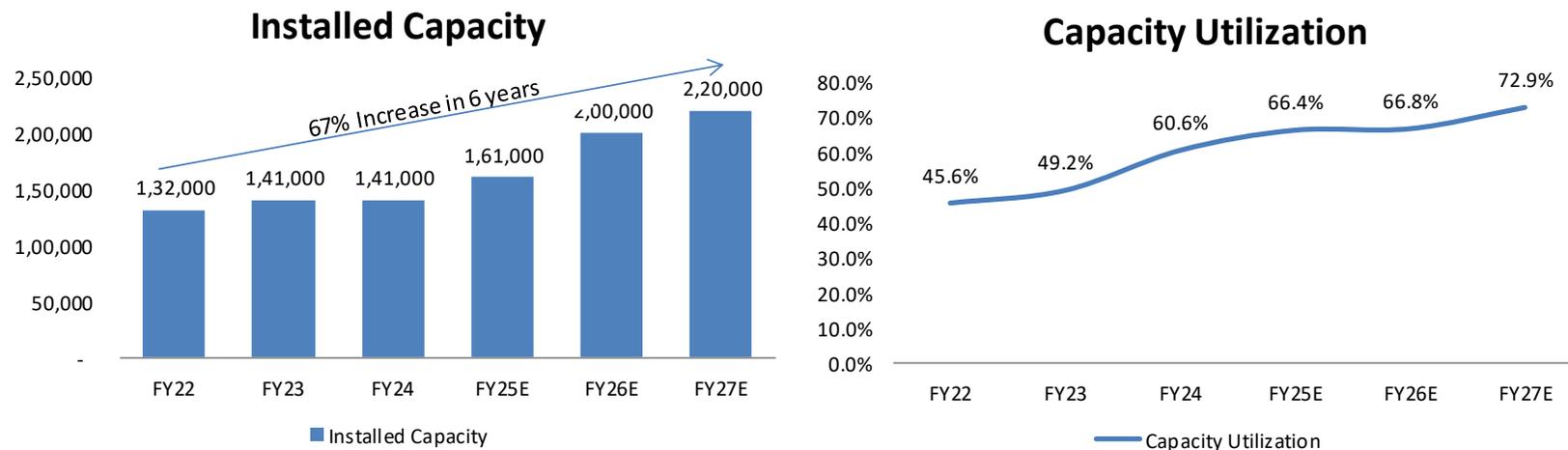
Small Investment, Big Growth

Interarch is the second largest PEB player in India with a total capacity of **~1,61,000 MTPA** as of H1FY25. The company is witnessing strong demand for its products and in order cater to this increase in demand the company has plans to **increase** its capacity to **~2,00,000 MTPA** in FY26. The company currently has 5 manufacturing facilities located across the North and South regions of the country. The plants are currently operating at **~62%** of total capacity as at H1FY25. The current gross block has a **revenue potential of Rs. 20 bn**

In order to increase its capacity the company plans to **add ~40,000 MTPA in the next few months**. One round of capex will be brownfield at their existing plant in **Andhra Pradesh** where they plan to add **~20,000 MTPA** in phase 2 taking their total capacity at the plant to **~40,000 MTPA**. The company’s first plant at Andhra Pradesh has reached close to peak utilization in just six months post commission. In H1FY25 the company has spent **~Rs. 0.45 bn** on capex.

Similarly, the company plans to expand its Kiccha plants capacity by **~20,000 MTPA**. Both these expansions are planned for completion by Q1FY26 and will add an incremental revenue potential of **Rs. 5 bn**. The planned capex for this expansion is **RS. 0.7 bn**. The company has high asset turnovers of **~7 times**.

The company also has plans to enter into the western regions and for purpose has **acquired land in Gujarat**. The land size is **~51,926 sq mtrs** and was procured at a **cost of Rs. 70 mn**. The company has a strong customer base in the western region and has serviced clients like **Asian Paints, Timkens, Micron, Asahi Glass**, etc. The **primary purpose of the Gujarat expansion** is to set a manufacturing base for **heavier structures such as multi-story buildings, data centers, etc**. While the margin profile of these structures are similar to regular PEB structures, heavier structure require a significantly higher amount of steel and are hence revenue accretive. We believe that this expansion will likely be done in a similar manner to the Andhra Pradesh plant where the company **will add ~40,000 MTPA over two phases**.

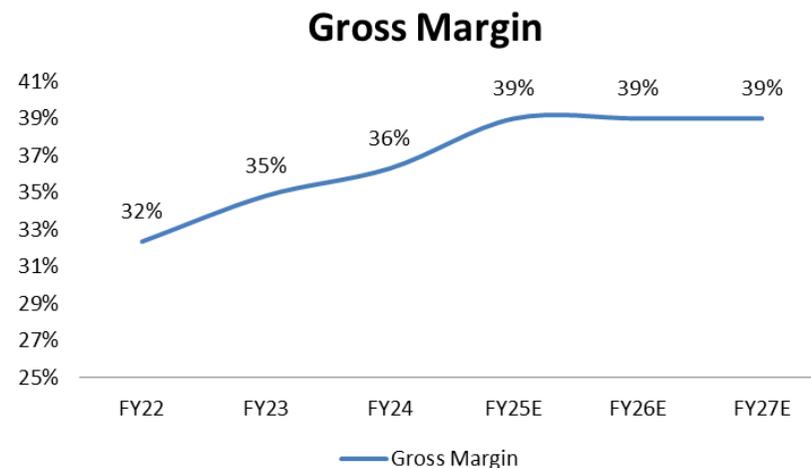


Source: Company, PhillipCapital India Research

Stabilizing Margins

The over past few years IBPL has seen a **significant improvement in margins**: EBITDA margins which were as low as **~4% in FY22 hit a high of 9.5% in FY24**. The **management is guiding** for EBITDA margins in the **low double digits (~10-11%)** on a long term sustainable basis. This improvement in margins will be driven by 1) operating leverage 2) better capacity utilization 3) larger orders of scale.

Over FY22 to FY24, the company has seen significant improvement in its gross margins which is the biggest driver of improvement in its margin profile. This improvement in gross margin is on account of **better economies of scale** and **increase in more complex orders**, beneficial steel prices, etc.



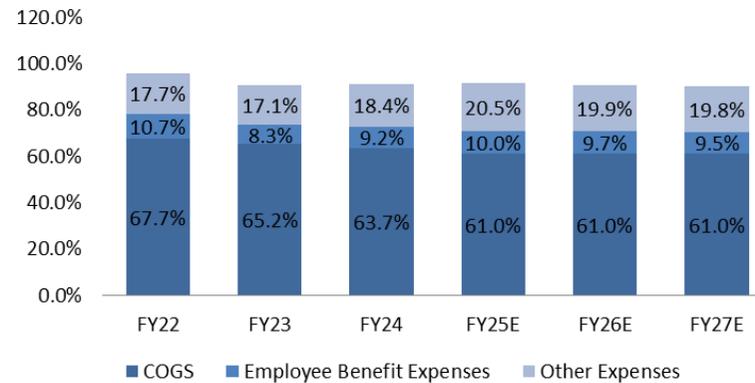
Source: Company, PhillipCapital India Research

Over the past few years the company has been improving capacity significantly and **added close to ~30,000 MTPA** since FY22. This improvement in capacity has led to higher operational expenses both for adding new employees and fixed plant cost in FY25. Going ahead; as the company has achieved scale they are now able to better absorb the cost. The company on account of its improved capacity is now able to win a significantly higher number of large orders. These orders allow for better utilization of the plant due to continuous production. The company is in the **process of hiring talent for their new Gujarat and Andhra Pradesh facility** which will lead to elevated employee expenses in the short term.

Further, as IBPL has expanded capacities across India especially in the North it is better equipped to service customers for locations closer to the site. This will start leading to a decrease in freight cost and lead to further cost savings.

Another area for cost savings will be **reduction in ESOP cost** both in absolute terms and as a percentage of sales. In July 2024 the company started their ESOP plan which will extend for 5 years, 50% of this cost will be expenses in the first year and the balance over the next 4 years. This cost had an impact of almost ~1% on the margins in Q2FY25 and is expected to reduce starting H2FY25.

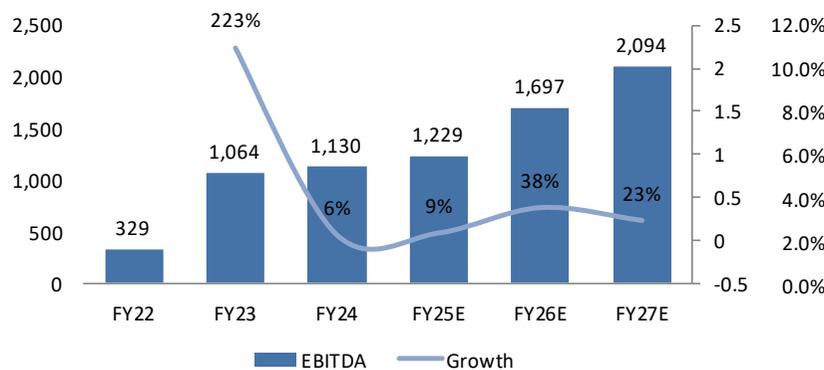
Expenses Trend



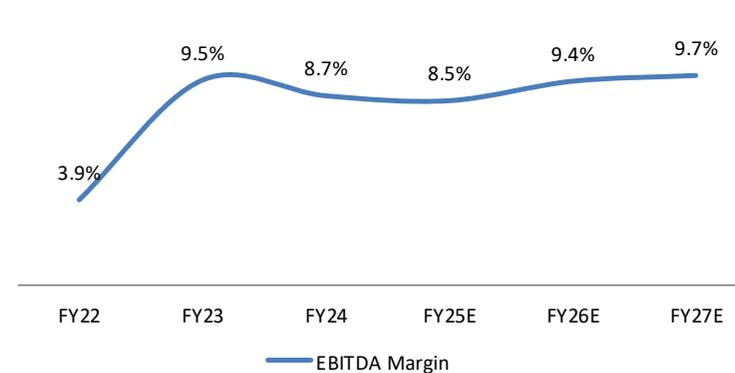
Source: Company, PhillipCapital India Research

We estimate that over the next two years i.e. FY26 and FY27 the company's EBITDA margins will improve to **9.4%** and **9.7%** respectively.

EBITDA Growth Trend



EBITDA Margin



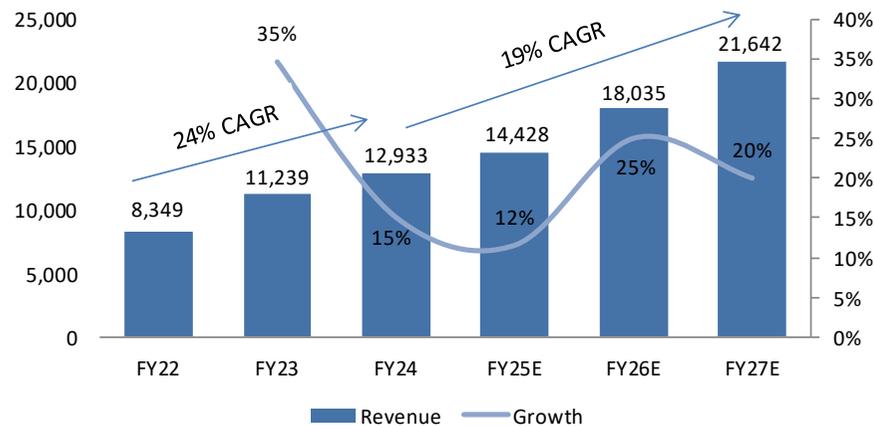
Source: Company, PhillipCapital India Research

Improving Financial Performance

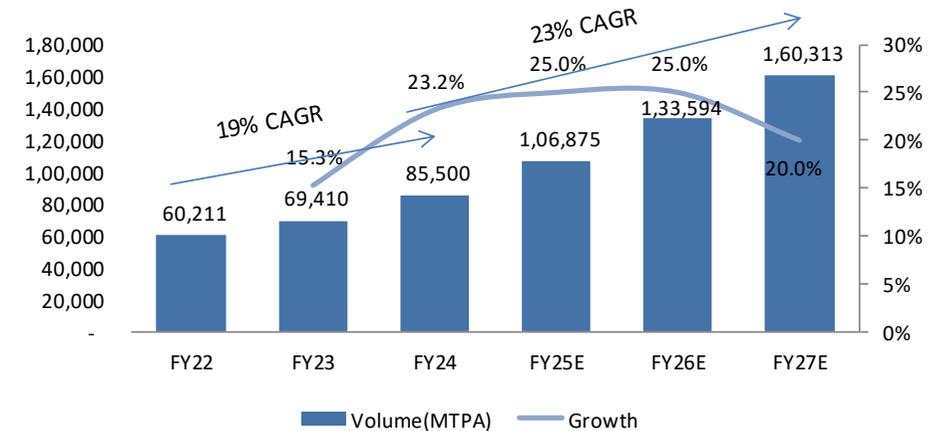
- Strong Revenue growth:** The Company has outpaced the industries growth over the past few years and given the supportive demand environment, the company's in house capabilities and their strong customer base, IBPL will continue to outpace the industry growth.

We have estimated that the company will grow at **revenue CAGR of 19% between FY24-27E** as compared to **24% in FY22-24**. The revenue CAGR slowdown is primarily attributable to a cool off in steel price. We have factored in a **volume growth of 23% over FY24-27E** whereas the **volume growth for FY22-24 was 19%**.

Revenue Trend



Volume Growth Trend

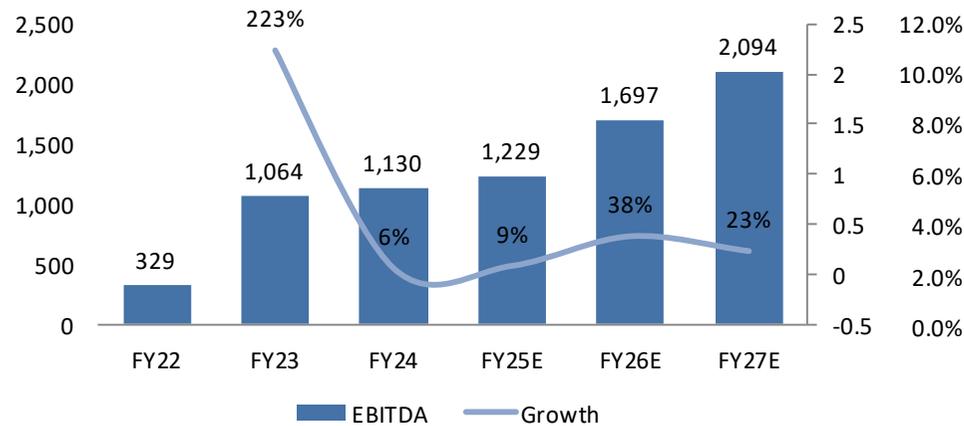


Source: Company, PhillipCapital India Research

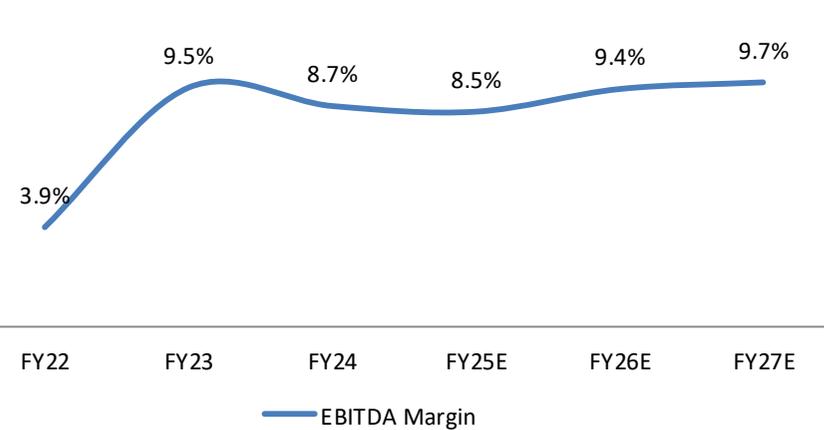
- Improvement in operating income –** During FY16-22 IBPLs margins have been in a range of **~1-4%**, however, as the company has achieved scale and started winning larger orders the companies margin profile has significantly improved to 8-10%. Going forward we estimate that the company will have **EBITDA margins of 9.4% and 9.7% in FY26 and FY27 respectively**.

In absolute terms the companies EBITDA has grown by a **CAGR of 85% over FY22-24**. However, this was on account of the low base in FY22. **Over FY24-27E** we estimate that the EBITDA will increase from **Rs. 1130 mn to Rs. 2094 mn in FY27** reflecting a **CAGR of 23%** over the same period.

EBITDA Growth Trend



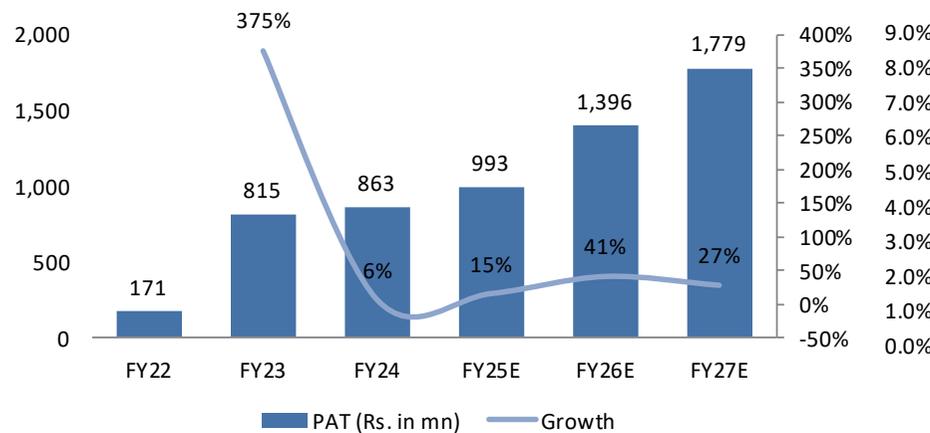
EBITDA Margin



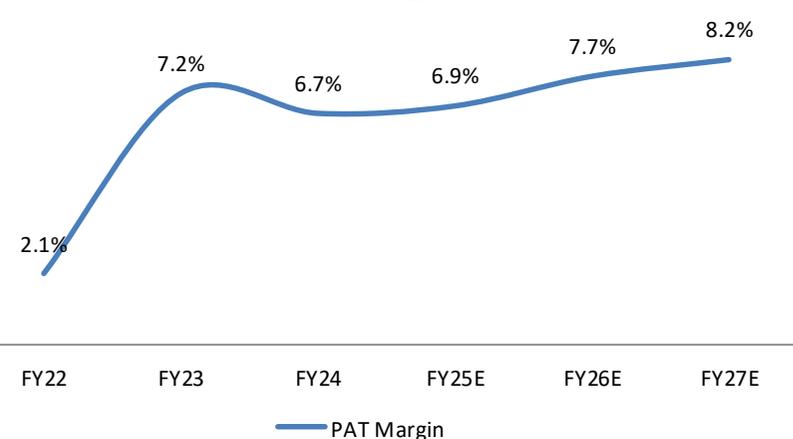
Source: Company, PhillipCapital India Research

3. **Profitability:** Given, the low base of FY22 over the period FY22-24 IBPLs **profit grew at a CAGR of 182%**. Over FY24-27E we estimate that company's profit will grow at a **CAGR of 27%**. At the same time we estimate that the PAT margin will improve to **8.3% in FY27E from 6.7% in FY24 and 2.1% in FY22**.

PAT Growth Trend



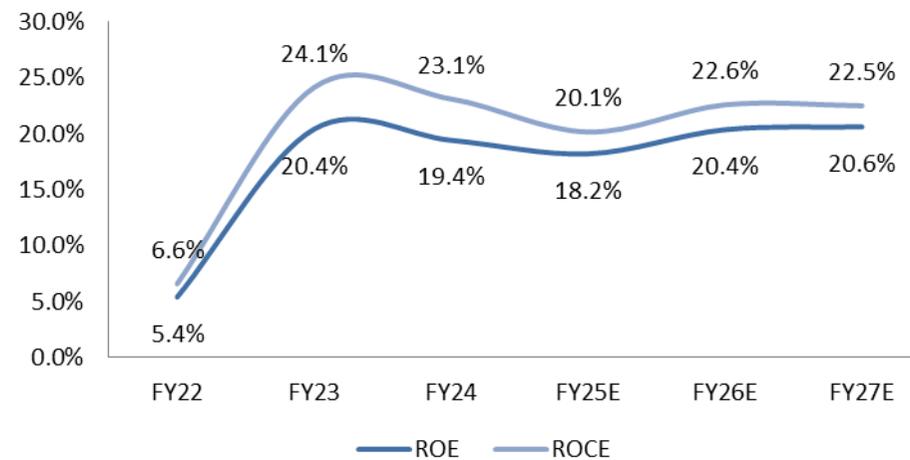
PAT Margin



Source: Company, PhillipCapital India Research

4. **Debt:** The Company has a healthy cash position of ~ **Rs. 3.9 bn in H1FY25**. Further, the company has minimal debt of ~**Rs. 0.1 bn** on the balance sheet and does not anticipate any increase in this debt going forward. IBPL needs to maintain a healthy cash position for two core reasons i.e. in order to meet bank guarantee requirements and secondly a strong cash balance gives customers a comfort regarding their ability to execute projects.
5. **Working Capital:** The Company has a stable **working capital cycle of 35 days**. Going forward we do not anticipate any change in this working capital and have modelled in 35 days as our working capital cycle. The company also receives up to 20% as an advance for medium to large orders which further benefits them on a working capital front.
6. **Cash Flow:** The Company has a healthy cash flow generation of ~1 time its EBITDA allowing for sustaining operating without needing to raise additional funds.
7. **Return Ratios:** Post 2022 the return profile of IBPL has significantly changed with the **ROE and ROCE improving to 19.4% and 23.1% in FY24** from 5.4% and 6.6%. We estimate that the company will continue to maintain returns at these levels and have factored in **ROE and ROCE of 20.6% and 22.5% in FY27E**.

Return Ratios



Source: Company, PhillipCapital India Research

Risks:

- **Slowdown in Capex Cycle:** IBPLs order inflow is dependent on the private capex or industrial spend. If there is a slowdown in the capex cycle it will result in a trickledown effect to IBPL.
- **Sharp increase in steel prices:** While IBPL is able to pass on the steel cost for majority of their larger order; if there is a sharp rise in steel prices in a short period of time IBPL will be unable to pass on the cost and this will negatively impact their margins.
- **Increased competitive intensity:** An increase in the competitive intensity by players will lead to a bidding war which will cause prices and in turn revenue and margins to drop.

Outlook and View:

Interarch Building Products Limited (IBPL) is the fastest growing focused player in the Indian PEB market. The company is seeing strong demand for their products given 1) good industrial tailwinds 2) a shift from unorganized players to organized players 3) high design and execution capabilities 4) strong balance sheet and 5) larger ticket size orders. The company is actively looking for areas where they can replace the use of concrete structures and is in the process of setting up capacities and partnerships to enter into the heavier structure segment.

We are estimating a revenue/EBITDA/PAT CAGR of 19%/23%/27% over FY24-27e. We have valued the business at 20 times FY27E earnings of INR 106.9/- share, we initiate coverage on Interarch Building Products Ltd with a BUY Rating and have arrived at a price target of INR 2137.8/-, implying 34% upside from current level.

Consolidated Financials:

Income Statement

Y/E March, Rs. Mn	FY24	FY25E	FY26E	FY27E
Net sales	12,933	14,428	18,035	21,642
Growth %	15%	12%	25%	20%
Raw Material Cost	8,238	8,801	11,001	13,202
Employee cost	1,190	1,443	1,749	2,056
Other expense	2,376	2,956	3,587	4,290
Total expense	11,803	13,200	16,338	19,548
EBITDA	1,130	1,229	1,697	2,094
EBIDTA margin (%)	8.7%	8.5%	9.4%	9.7%
Depreciation	80	108	127	130
EBIT	1,050	1,120	1,570	1,964
Finance Cost	22	19	24	30
Other income	130	227	319	443
PBT	1,159	1,328	1,866	2,378
Less: Taxation	296	335	470	599
Effective tax rate (%)	25.6%	25.2%	25.2%	25.2%
PAT	863	993	1,396	1,779
Growth %	5.9%	15.1%	40.5%	27.4%
PAT margin (%)	6.7%	6.9%	7.7%	8.2%
Wtd. Avg. Shares (Mn)	14.4	16.6	16.6	16.6

Balance Sheet

Y/E March, Rs. Mn	FY24	FY25E	FY26E	FY27E
Equity capital	144	166	166	166
Reserves	4,302	5,295	6,691	8,470
Net worth	4,446	5,462	6,857	8,636
NCI	-	-	-	-
Non Current Liabilities	102	102	102	102
Current Liabilities	3,002	5,619	6,759	7,910
Total liabilities	7,550	11,182	13,718	16,648
Net block	1,629	2,311	2,375	2,307
CWIP	127	100	50	-
Total fixed asset	1,756	2,411	2,425	2,307
Intangible assets	2	2	2	2
Other non current assets	646	833	833	833
Current assets				
Investment	-	-	-	-
Inventory	1,468	1,581	1,976	2,372
Trade Receivables	1,708	1,976	2,471	2,965
Cash & bank Balance	1,377	3,777	5,319	7,387
Other Current assets	593	603	693	783
Total assets	7,550	11,182	13,718	16,648

Cash Flow

Y/E March, Rs. Mn	FY24	FY25E	FY26E	FY27E
PBT	1,159	1,328	1,866	2,378
Depreciation	80	108	127	130
Tax paid	296	335	470	599
Change in WC/other adjustment	(139)	(2,226)	(161)	(171)
Cash Flow from Operating activities	1,082	3,327	1,683	2,080
Capital Expenditure	231	718	119	29
Other intangible asset	31	45	23	(18)
Others	108	187	-	-
Cash Flow from Investing activities	370	950	141	11
Change in Equity	(409)	22	-	-
Change in Debt	(5)	(6)	-	-
Others	(112)	6	-	-
Cash Flow from Financing activities	(526)	22	-	-

Valuation Ratios

Y/E March, Rs. Mn	FY24	FY25E	FY26E	FY27E
EPS	59.8	59.7	83.9	106.9
Book NAV / Share	308	328	412	519
DPS	-	-	-	-
Growth Ratios				
Net Sales (%)	15.1%	11.6%	25.0%	20.0%
EBIDTA (%)	6.2%	8.7%	38.2%	23.4%
PAT (%)	5.9%	15.1%	40.5%	27.4%
Return Ratios				
ROE (%)	19.4%	18.2%	20.4%	20.6%
ROCE (%)	23.1%	20.1%	22.6%	22.5%
Turnover Ratios				
Asset Turnover (x)	1.7	1.3	1.3	1.3
Fixed asset turnover (x)	7.9	6.2	7.6	9.4
Receivable Days	48	50	50	50
Inventory Days	41	40	40	40
Payable Days	57	55	55	55
Liquidity Ratios				
Current Ratio (x)	1.7	1.4	1.5	1.7
Interest Cover (x)	48.6	59.2	66.4	66.5
Total Debt / Equity (x)	0.0	0.0	0.0	0.0
Valuation Ratios				
PER (x)	NA	26.8	19.1	15.0
Price / Book (x)	NA	4.9	3.9	3.1
Price / Sales (x)	NA	1.6	1.3	1.1
EV / Sales (x)	NA	1.5	1.2	1.0
EV / EBIDTA (x)	NA	17.7	12.8	10.4

Source: Company, PhillipCapital India Research

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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