

Pennar Industries (PIL) reported strong revenue growth of 21.4% YoY to Rs 2.89bn during the quarter supported by robust growth in Systems & Projects, PEBS and Enviro businesses. Revenue from PEBS grew by 30% YoY to INR910mn, while Enviro business grew by 221% YoY to Rs61mn. The strong execution of wagon orders helped the Systems & Projects business to grow by 89% YoY to Rs 487mn. Revenue in tubes segment grew by 11.2% YoY to Rs 337mn, the capacity expansion in tubes is underway which is expected to maintain strong growth going ahead. The company is focusing on special grade steels while reducing low contribution products, resulting in 1.8% YoY decline in revenue to Rs 1bn in steel segment during 2QFY15. It is seeing traction in order inflow across the segments. PEBS has overbook of Rs 3.5bn, Railways segment has order book of Rs900mn while solar segment has order book of Rs480mn. The newly started water business has order book of Rs650mn. The company has product execution period of 4-7 month and strong order book should support revenue growth in 2HFY15.

EBITDA grew by 30% YoY to Rs243mn with 60bps YoY (30 bps QoQ) improvement in margins to 8.4%. Raw material cost as percentage of sales increased by 389bps from 62.4% in Q2FY14 to 66.5% in Q2FY15. EBITDA margins in Tubes business recovered by 202bps YoY to 6.8%, Industrial component up by 193bps YoY to 14.7%, Systems and project up by 124bps YoY to 12.9%. The EBITDA margins in PEBS declined by 32bps to 8.7% while in steel segment, it declined by 121bps to 5.4% during the quarter. The growth in high margin business is expected to improve overall margins for the company led by operating leverage.

Depreciation cost declined by 32.8% YoY to Rs 31mn with change in depreciation policy from fixed rate to useful life of assets. PBIT grew by 52% YoY to Rs 144mn in 2QFY15. The company has higher tax provision during the quarter of Rs 73mn (effective rate of 51%) due to higher deferred tax on account of change in depreciation policy. Profits grew by 8% YoY (9.5% QoQ) to Rs 65mn, translating into EPS of Rs 0.5 in 2QFY15.

The management on conference call highlighted the strong outlook for PEBS, systems and environmental segment. PEBS has 50% revenue from repeat customers and orders are full. The company is also exploring the possibility of IPO for PEBS. Systems business could see strong growth on orders from wagon and coaches and is increasing plant capacity for same. The focus is on cash flow cycle and will try to manage working capital cycle to ~2-2.5 months. Total capital expenditure would be ~Rs500mn in FY15 (including Rs 200mn for PEBS, Rs 60mn in tubes and Rs 100mn in railways) and Rs 300mn in FY16.

**Valuations:** At CMP of INR59, stock is trading at 7.8x FY17 earnings and EV/EBITDA of 4.1x FY17. Its revenue profile has changed significantly towards value-added products and the company is in a strong position to capitalize on economic recovery. We have valued the company at 10x our FY17 EPS of Rs 7.5 to arrive at a price target of Rs 75, translating into EV/EBITDA valuation at 4.9x FY17. We maintain our BUY rating.

## BUY

PSL IN | CMP RS 59

TARGET RS 75 (+28%)

### Company Data

O/S SHARES (MN) :	120
MARKET CAP (RSBN) :	7
MARKET CAP (USDMN) :	117
52 - WK HI/LO (RS) :	67 / 18
LIQUIDITY 3M (USDMN) :	2.3
FACE VALUE (RS) :	5

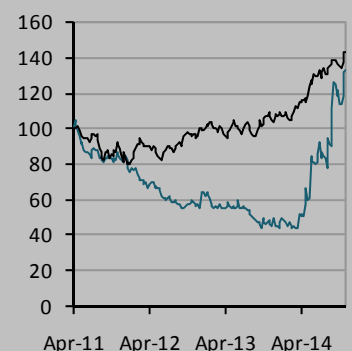
### Share Holding Pattern, %

PROMOTERS :	40.1
FII / NRI :	20.9
FI / MF :	9.9
NON PROMOTER CORP. HOLDINGS :	12.2
PUBLIC & OTHERS :	17.0

### Price Performance, %

	1mth	3mth	1yr
ABS	15.8	49.3	189.9
REL TO BSE	9.1	40.8	151.5

### Price Vs. Sensex (Rebased values)



Source: Bloomberg, Phillip Capital Research

### Other Key Ratios

Rs mn	FY15E	FY16E	FY17E
Net Sales	13,174	16,110	19,727
EBIDTA	1,112	1,563	2,143
Net Profit	369	599	907
EPS, Rs	3.1	5.0	7.5
PER, x	19.2	11.8	7.8
EV/EBIDTA, x	7.7	5.6	4.1
P/BV, x	1.9	1.7	1.4
ROE, %	9.8	14.2	18.3
Debt/Equity (%)	44.2	45.3	41.6

Source: PhillipCapital India Research Est.

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**Quarterly financial performance**

	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15
<b>Net Sales</b>	<b>2,855</b>	<b>2,664</b>	<b>2,736</b>	<b>3,051</b>	<b>2,536</b>	<b>2,383</b>	<b>2,732</b>	<b>3,080</b>	<b>2,767</b>	<b>2,892</b>
Total Raw Material	1,937	1,745	1,602	1,970	1,582	1,491	1,602	2,248	1,802	1,923
% of Sales	67.9	65.5	58.5	64.5	62.4	62.6	58.6	73.0	65.1	66.5
Employee Cost	137	142	176	194	164	156	176	208	189	177
Other Expenses	512	500	739	589	608	549	739	324	552	550
Total Expenses	2,586	2,387	2,517	2,753	2,354	2,196	2,517	2,779	2,542	2,650
<b>EBITDA</b>	<b>269</b>	<b>277</b>	<b>220</b>	<b>299</b>	<b>182</b>	<b>186</b>	<b>215</b>	<b>301</b>	<b>225</b>	<b>243</b>
EBITDA margins	9.4	10.4	8.0	9.8	7.2	7.8	7.9	9.8	8.1	8.4
Depreciation	44	44	53	49	43	46	53	46	58	31
<b>EBIT</b>	<b>225</b>	<b>234</b>	<b>167</b>	<b>250</b>	<b>138</b>	<b>140</b>	<b>162</b>	<b>255</b>	<b>167</b>	<b>211</b>
Interest	45	69	64	93	63	61	64	76	76	75
<b>EBT</b>	<b>180</b>	<b>164</b>	<b>103</b>	<b>157</b>	<b>75</b>	<b>79</b>	<b>98</b>	<b>178</b>	<b>91</b>	<b>137</b>
Other Income	8	4	11	17	21	16	15	-1	5	7
EBT (OI)	188	168	114	174	96	95	114	177	96	144
Tax	70	52	39	72	26	28	39	82	28	73
Tax rate (%)	37	31	34	41	27	29	34	46	29	51
Current Tax	60	50	25	88	25	26	25	59	20	43
Deferred Tax	10	2	14	-16	2	2	14	22	8	31
<b>PAT</b>	<b>118</b>	<b>116</b>	<b>75</b>	<b>102</b>	<b>70</b>	<b>67</b>	<b>75</b>	<b>96</b>	<b>68</b>	<b>71</b>
Minority Interest	8	8	11	13	8	8	11	21	10	7
Extraordinary	-	-	-	-	-	-	-	-	-	-
Reported PAT	109	108	64	89	62	59	64	74	58	64
<b>EPS</b>	<b>0.9</b>	<b>0.9</b>	<b>0.5</b>	<b>0.7</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>
<b>Cash EPS</b>	<b>1.3</b>	<b>1.3</b>	<b>1.0</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.8</b>

**Segmental Revenue (Rs mn)**

Steel Products	1,344	1,107	1,066	1,337	1,180	1,020	1,000	1,068	1,014	1,002
Tubes	274	217	217	285	323	303	345	345	362	337
Industrial Component	187	186	159	195	184	119	130	143	147	129
Systems & Projects	383	469	568	487	236	258	363	342	162	487
Pennar Enviro	-	-	14	16	-	19	22	104	72	61
Pre-Engineering Building	673	626	700	883	712	700	979	1,223	1,013	910
<b>EBITDA Margins (%)</b>										
Steel Products	9.3	7.7	8.9	6.0	5.2	6.6	5.9	5.0	6.3	5.4
Tubes	8.8	7.0	7.9	5.3	5.8	4.8	6.0	4.0	6.2	6.8
Industrial Component	13.5	18.4	17.2	6.9	12.1	12.8	12.7	14.6	14.0	14.7
Systems & Projects	13.6	14.8	11.7	13.1	8.2	11.7	10.3	12.1	18.9	12.9
Pennar Enviro	-	-	6.0	7.8	-	7.1	6.0	1.6	3.1	6.6
Pre-Engineering Building	11.8	11.8	10.2	14.4	8.8	9.0	8.8	12.9	8.4	8.7

Source: Company, PhillipCapital India Research

## Key Highlights

### Systems & Projects

- 1) Railways: Revenue grew by 67% on QoQ at Rs 490mn for both coach and wagon. It received orders worth Rs 120mn for coach applications, Rs 180mn worth of orders from wagon builders during the quarter. The company is working with a customer for the supply of CRF sections for metro coach applications.
- 2) Solar: It has have received a large order from L&T Construction - Solar Division, to be executed in Q3FY15. This division received single largest order from Mahindra EPC to be executed between December 2014 - February 2015. It has also received an LOI from Belectric Photovoltaic India Pvt Ltd for a large order to be executed between December 2014 and March 2015.

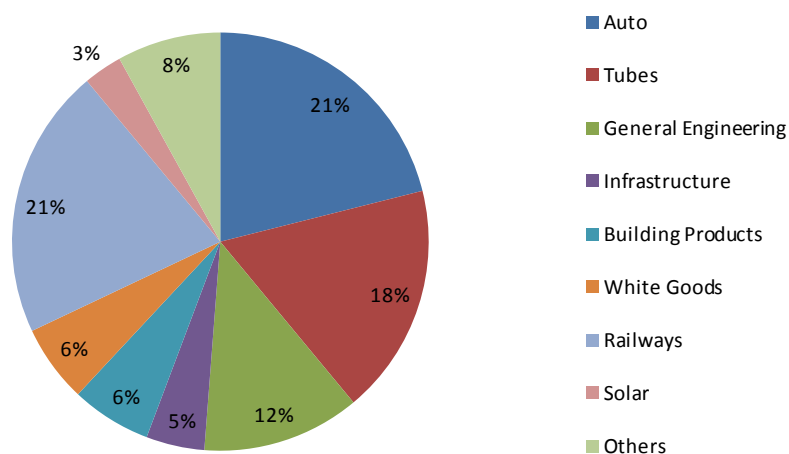
**Tubes:** The Electric Resistance Welded (ERW) sub-segment saw a growth of 15% compared with Q2FY14, while Cold Drawn Welded (CDW) grew by 50%. Infra, power sector products were slow moving. The segment did well on the back of a pick-up in the 2-wheeler volumes in the automotive industry. Capacity expansion of 300MT in CDW and 500MT in ERW by December 2014 is currently underway. It has total customer base of over 100 and 60% of the business is from repeat customers. A total of 15 new customers were added in this quarter.

**Industrial Components:** During the quarter, it received new orders from large firms for Wedge Barrier, Guide Bracket, Yoke Rotor cups and Bead plates. The automotive industry is showing signs of recovery. The company is focusing on critical high performance components for brake, suspension and auto electrical applications. In new Hydraulics business, it received a sample order from a USA based client.

**Pre-Engineered Buildings (PEBS):** It received 50+ new orders this quarter and added 35 new customers. Major order includes MRF, Reliance Jio Infocomm, UltraTech Cement, KRIDL, Zillion Infra, L&T, Azure power and others.

**Pennar Enviro (PEL):** Its chemicals business has ~170 customers; O&M has 40 customers and Projects with 30 customers. Some of the major new customers added include JSW Bellary, I G Petrochemicals, Jayapee Balaji Cement, Amtek Auto, Veeraya Power, and others. Repeat orders have come from Hero Cycles, Deepak Nitrite Ltd, Goodyear India Limited, Silk Road Sugars, SLN coffee and others.

### Standalone Industry-wise Revenue Breakup (2QFY15)



Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY14	FY15E	FY16E	FY17E
<b>Net sales</b>	<b>10,745</b>	<b>13,174</b>	<b>16,110</b>	<b>19,727</b>
Growth, %	-4	23	22	22
Total income	10,745	13,174	16,110	19,727
Raw material expenses	-6,923	-8,310	-10,179	-12,428
Employee expenses	-704	-844	-971	-1,146
Other Operating expenses	-2,220	-2,908	-3,396	-4,010
<b>EBITDA (Core)</b>	<b>898</b>	<b>1,112</b>	<b>1,563</b>	<b>2,143</b>
Growth, %	(20.9)	23.9	40.6	37.1
Margin, %	8.4	8.4	9.7	10.9
Depreciation	-188	-198	-225	-245
<b>EBIT</b>	<b>710</b>	<b>914</b>	<b>1,338</b>	<b>1,899</b>
Growth, %	(25.7)	28.8	46.4	41.9
Margin, %	6.6	6.9	8.3	9.6
Interest paid	-265	-301	-326	-352
Other Non-Operating Income	37	38	41	44
<b>Pre-tax profit</b>	<b>482</b>	<b>651</b>	<b>1,053</b>	<b>1,591</b>
Tax provided	-174	-228	-368	-557
<b>Profit after tax</b>	<b>307</b>	<b>423</b>	<b>684</b>	<b>1,034</b>
Others (Minorities, Associates)	-48	-54	-85	-127
<b>Net Profit</b>	<b>259</b>	<b>369</b>	<b>599</b>	<b>907</b>
Growth, %	(38.0)	42.3	62.4	51.3
<b>Net Profit (adjusted)</b>	<b>259</b>	<b>369</b>	<b>599</b>	<b>907</b>
Unadj. shares (m)	120	120	120	120
Wtd avg shares (m)	120	120	120	120

### Balance Sheet

Y/E Mar, Rs mn	FY14	FY15E	FY16E	FY17E
Cash & bank	191	161	202	323
Debtors	2,498	2,960	3,531	4,324
Inventory	1,888	2,274	2,825	3,459
Loans & advances	444	498	572	658
Other current assets	241	278	333	400
Total current assets	5,262	6,170	7,463	9,164
Investments	255	263	271	279
Gross fixed assets	4,489	4,839	5,239	5,689
Less: Depreciation	-2,023	-2,222	-2,447	-2,692
Add: Capital WIP	128	120	120	120
Net fixed assets	2,594	2,737	2,912	3,118
<b>Total assets</b>	<b>8,111</b>	<b>9,170</b>	<b>10,646</b>	<b>12,560</b>
Current liabilities	3,474	4,113	4,786	5,648
Provisions	80	88	96	106
Total current liabilities	3,554	4,200	4,882	5,755
Non-current liabilities	640	773	1,025	1,205
Total liabilities	4,194	4,973	5,908	6,959
Paid-up capital	658	657	657	657
Reserves & surplus	2,895	3,121	3,577	4,313
Shareholders' equity	3,918	4,197	4,738	5,600
<b>Total equity &amp; liabilities</b>	<b>8,112</b>	<b>9,170</b>	<b>10,646</b>	<b>12,560</b>

### Cash Flow

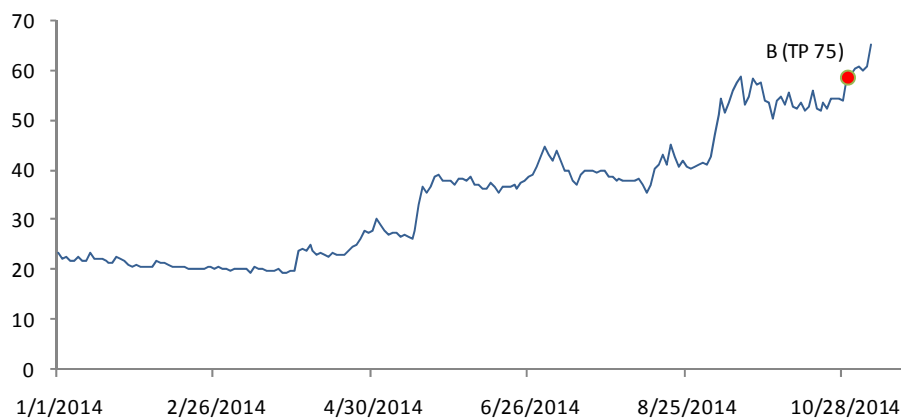
Y/E Mar, Rs mn	FY14	FY15E	FY16E	FY17E
Pre-tax profit	482	651	1,053	1,591
Depreciation	188	198	225	245
Chg in working capital	-263	-291	-570	-707
Total tax paid	-135	-195	-316	-477
<b>Cash flow from operating activities</b>	<b>272</b>	<b>363</b>	<b>392</b>	<b>651</b>
Capital expenditure	-265	-342	-400	-450
Chg in investments	-222	-7	-8	-8
<b>Cash flow from investing activities</b>	<b>-487</b>	<b>-349</b>	<b>-408</b>	<b>-458</b>
Free cash flow	-215	14	-16	193
Equity raised/(repaid)	-15	24	25	25
Debt raised/(repaid)	109	100	200	100
Dividend (incl. tax)	-145	-143	-143	-172
<b>Cash flow from financing activities</b>	<b>21</b>	<b>-19</b>	<b>82</b>	<b>-47</b>
Net chg in cash	-195	-5	66	146

### Valuation Ratios & Per Share Data

	FY14	FY15E	FY16E	FY17E
<b>Per Share data</b>				
EPS (INR)	2.2	3.1	5.0	7.5
Growth, %	(37.2)	42.4	62.4	51.3
Book NAV/share (INR)	29.5	31.4	35.2	41.3
FDEPS (INR)	2.2	3.1	5.0	7.5
CEPS (INR)	3.7	4.7	6.9	9.6
CFPS (INR)	3.3	2.3	2.5	4.6
DPS (INR)	1.0	1.0	1.0	1.2
<b>Return ratios</b>				
Return on assets (%)	6.1	7.1	9.0	10.8
Return on equity (%)	7.3	9.8	14.2	18.3
Return on capital employed (%)	10.5	12.7	16.4	19.7
<b>Turnover ratios</b>				
Asset turnover (x)	2.0	2.4	2.6	2.8
Sales/Total assets (x)	1.4	1.5	1.6	1.7
Sales/Net FA (x)	4.2	4.9	5.7	6.5
Working capital/Sales (x)	0.1	0.1	0.2	0.2
Fixed capital/Sales (x)	0.1	0.0	0.0	0.0
<b>Liquidity ratios</b>				
Current ratio (x)	1.5	1.5	1.6	1.6
Quick ratio (x)	1.0	0.9	1.0	1.0
Interest cover (x)	2.7	3.0	4.1	5.4
Dividend cover (x)	2.1	3.1	5.0	6.3
Total debt/Equity (%)	42.8	44.2	45.3	41.6
Net debt/Equity (%)	37.4	39.9	40.6	35.1
<b>Valuation</b>				
PER (x)	27.4	19.2	11.8	7.8
PEG (x) - y-o-y growth	(0.7)	0.5	0.2	0.2
Price/Book (x)	2.0	1.9	1.7	1.4
Yield (%)	1.7	1.7	1.7	2.0
EV/Net sales (x)	0.8	0.7	0.5	0.4
EV/EBITDA (x)	9.4	7.7	5.6	4.1
EV/EBIT (x)	11.9	9.4	6.6	4.7

Source: Company, PhillipCapital India Research Estimates

### Recommendation History



Source: PhillipCapital India Research

## Management

Vineet Bhatnagar (Managing Director)	(91 22) 2300 2999
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