INTERARCH BUILDING LIMITED

August 16, 2024

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	**Capital Goods**
Offer for sale (Shares)	4,447,630
Fresh Issue (Shares)	2,222,222
Net Offer to the Public	**6,669,852**
Issue Size (Rs. Cr.)	566.94-600.29
Price Band (Rs.)	850-900
Employee Discount	Rs 85 per share
Offer Date	19-Aug-24
Close Date	21-Aug-24
Face Value	10
Lot Size	16

Issue Composition

	In shares
Total Issue for Sale	6,669,852
QIB	3,334,926
NIB	1,000,478
Retail	2,334,448

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	87.53%	59.91%
QIB	12.47%	20.04%
NIB	0.00%	6.01%
Retail	0.00%	14.03%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

Financing the capital expenditure towards setting up a new PEB manufacturing unit (classified as Phase 2 of the capacity development plan at the Planned Andhra Pradesh Manufacturing Facility) ("Project")

Financing the capital expenditure towards the upgradation of the Kichha Manufacturing Facility, Tamil Nadu Manufacturing Facility I, Tamil Nadu Manufacturing Facility II and Pantnagar Manufacturing Facility;

Funding investment in information technology ("IT") assets for upgrading the company's existing information technology infrastructure; Funding incremental working capital requirements; and

General Corporate Purposes

Book Running Lead Manager

- Ambit Private Limited
- Axis Capital Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Founded in 1983, Interarch Building Limited is a leading provider of turnkey pre-engineered steel building solutions in India. Offering integrated services from design and engineering to manufacturing and on-site project management, the company boasts a substantial installed capacity of 141,000 metric tonnes per year and a 6.1% market share in operating income as of FY2023. Interarch's product range includes PEB contracts and the sale of PEB materials like metal ceilings, corrugated roofing, and steel structures. Its clientele spans diverse sectors, including industrial and manufacturing (Grasim Industries, Berger Paints, Blue Star Climatech, Timken India, Addverb Technologies) and infrastructure (Instakart Services). With manufacturing facilities in Sriperumbudur (Tamil Nadu) and Pantnagar and Kichha (Uttarakhand) and a sales network across India, Interarch leverages its ISO 9001:2015 certified operations and a skilled design and engineering team (111 engineers with an average experience of 8.05 years) to deliver high-quality PEB solutions.

Strength

Market position and established brand presence in the growing pre-engineered steel building industry in India: The company is a leading integrated PEB player in India, ranked third in operating revenue for FY24. With a robust installed capacity of 141,000 MTPA and a 6.5% market share in FY24 operating income, it has solidified its position in the industry. Since its inception in 1983, the company has successfully executed 677 PEB contracts under its renowned brands, TRAC® and TRACDEK®. This extensive experience has enabled the company to evolve into a comprehensive PEB solutions provider, catering to diverse customer needs across various industries. Leveraging deep customer insights, the company has consistently acquired new clients. Its integrated capabilities, encompassing design, engineering, manufacturing, and on-site project management, position it strategically to capitalize on the growing PEB market in India.

Significantly integrated manufacturing operations: The company boasts a high degree of vertical integration in its manufacturing operations, spanning the entire PEB lifecycle. This includes estimating, designing, engineering, and fabricating fully knockdown PEBs at its manufacturing facilities, as well as supplying and managing on-site installation and erection. Its four manufacturing facilities, strategically located in Uttarakhand (Northern India) and Sriperumbudur, Tamil Nadu (Southern India), collectively boast an installed capacity of 141,000 MTPA as of March 31, 2024. Through continuous investment in manufacturing and design, the company is committed to optimizing production processes to deliver cost-effective PEBs that precisely meet customer needs and specifications.

Demonstrated track record of execution backed by on-site project management capabilities: The Company relies on its in-house project supervision, on-site project management capabilities for the erection and installation of PEBs supplied by its customers' sites to gain a competitive advantage in terms of quality, cost and delivery parameters. Project management expertise becomes extremely important to ensure timely completion and avoid costs overrun and helps with adherence to timelines, budget constraints, and maintaining high-quality standards. Since the commencement of its PEB Contracts business, it has developed project management capabilities, which enable us to offer PEBs on a turn-key basis to its customers, and accordingly contributes significantly to its ability to acquire new customers.

Diverse customer base and long-standing relationships with significant customers: Its customers under the industrial/manufacturing construction category include Grasim Industries Limited, Berger Paints India Limited, an air conditioner manufacturer, Timken India Limited and Addverb Technologies Limited and infrastructure construction category includes a warehousing and logistics service provider. It has established long-standing relationships with a number of its customers, including various Customer Groups, which it attributes in part to its emphasis on quality consciousness, cost efficiency, and timely execution. It attributes its long-standing relationships with its customers in part to its emphasis on quality consciousness, cost efficiency, and timely execution. Considering the critical nature of the use cases of its PEBs, its customer standards, requirements and required service levels are stringent, and accordingly, it considers the quality, durability and reliability of its PEBs as essential to maintaining customer relationships.

Demonstrated financial performance and status of its order book: It has experienced growth in certain financial indicators during the Financial Years ended March 31, 2022, March 31, 2023, and March 31, 2024, which it attributes in part to its continuing focus on operational efficiency, customer outreach and other sales and market initiatives, improvement in capacity utilization, growth of its order book and increase presence across India, and resultant economies of scale. Such demonstrated growth in its financial performance in recent years, positions it for future growth and further diversification of its customer base and offerings.

Strategy

Capitalize on Industry Tailwinds Through Proposed Expansion and Upgradation of Manufacturing Facilities: The company's extensive track record and domain experience, established brand presence and market position, paired with its integrated facilities for design and engineering, manufacture, on-site project management capabilities for installation and erection of PEBs supplied by it position to benefit from growth of the PEB industry in India. Accordingly, the company aims to utilise a portion of the Net Proceeds towards setting-up the Project, and also upgrading its Kichha Manufacturing Facility, Tamil Nadu Manufacturing Facility I, Tamil Nadu Manufacturing Facility II and Pantnagar Manufacturing Facility, in order to bolster its manufacturing capacity and capabilities, thereby enhancing its ability to capitalize on growing demand in the Indian PEB industry.

Expanding geographical footprint to cater to strategic markets in India and overseas: It has Manufacturing Facilities in the two states of Uttarakhand, India and Tamil Nadu, India, three dedicated design and engineering centres situated in Noida, Uttar Pradesh, India; Chennai, Tamil Nadu, India; and Hyderabad, Telangana India, and eight sales and marketing offices in eight cities to cater to its customers across India. It has historically relied upon strategic expansion of its geographical presence, by setting up sales and marketing offices to acquire customers and business in identified target markets. It identifies its target markets based on its internal assessment of existing demand for PEBs in such market, public announcements of significant construction projects in the region and government initiatives favourable to its operations. Building upon company's established manufacturing presence in Northern India and Southern India, company proposes to enhance its manufacturing presence in South Eastern India and Western India with its planned manufacturing facilities at Attivaram, Andhra Pradesh, India and Kheda, Gujarat, India.

Expand customer base and increase sales to existing customers: The company aims to foster strong customer relationships to generate repeat business by emphasizing quality, cost-efficiency, and timely delivery. To expand its market reach, a dedicated business development team has been established to identify new industries and sales channels. The sales and marketing team will then amplify the company's brand and product visibility within these target areas. To sustain growth, both teams will be expanded to deepen customer engagement and acquire new clients. The company is strategically focusing on the electric vehicle, renewable energy, and data center sectors, driven by recent government initiatives. The automotive industry, in particular, is experiencing rapid growth due to policies like FAME I, FAME II, and PM-eBus Sewa, coupled with reduced GST on electric vehicles. The increasing adoption of renewable energy has spurred the construction of solar and wind power

projects. Additionally, pent-up demand from the pandemic, combined with renewed investment in meeting renewable energy targets, is bolstering the construction industry.

Continue to invest in technology infrastructure to enhance in-house design and engineering, and manufacturing capabilities and thereby improve operational efficiencies: The company has invested in advanced design software, including Staad Pro, MBS, FrameCad, Tekla, AutoCAD, and ZWCAD, to optimize design and detailing based on customer specifications. A robust ERP system has been implemented across key operations to streamline supply chain, design, engineering, sales, marketing, and project management processes, enhancing efficiency and cost-effectiveness. The company will continue to invest in technology, including an upgraded ERP platform, to improve operational efficiency, business continuity, and customer satisfaction. A focus on design and engineering capabilities will drive product innovation, quality, and cost reduction. By optimizing manufacturing processes and expanding the design and engineering team, the company aims to capitalize on long-term growth opportunities, meet evolving customer needs, and maintain a competitive edge.

Risk factor

- Dependence on a limited number of third-party suppliers for the uninterrupted supply of its raw materials.
- The company does not have any long-term or continuing agreements with its customers or customer groups.
- Dependence on the performance of third-party builders/erectors for timely completion of its projects.
- The company requires significant working capital.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Everest Industries Limited	1613.65	16.32	8.69	121.43	2.79	378.24	10	1055.2	1666.67
Pennar Industries Limited	3115.13	102.93	7.63	21.68	2.55	64.95	5	165.45	2232.69
Interarch Building Products Limited**	1293.30	86.26	51.85	17.36	2.32	387.44	10	900.00	1497.43

***Peer companies financials are TTM based**
****Interarch Building Products financials are of FY 2024**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.900, the stock is priced at pre issue P/E of 15.04x on FY24 EPS of Rs. 59.84. Post issue, the stock is priced at a P/E of 17.36x on its EPS of Rs. 51.85. Looking at the P/B ratio at Rs. 900 pre issue, book value of Rs. 308.43 of P/BVx 2.92x. Post issue, book value of Rs. 387.44 of P/BVx 2.32x.

Considering the P/E valuation, on the lower end of the price band of Rs. 850, the stock is priced at pre issue P/E of 14.20x on FY24 EPS of Rs. 59.84. Post issue, the stock is priced at a P/E of 16.39x on its EPS of Rs. 51.85. Looking at the P/B ratio at Rs. 850 pre issue, book value of Rs. 308.43 of P/BVx 2.76x. Post issue, book value of Rs. 387.44 of P/Bvx 2.19x.

Industry Outlook

Pre-engineered steel construction has emerged as an innovative building method due to rapid growth of automation in the construction industry. The global pre-engineered steel buildings market is estimated at $16-17 billion as of calendar year 2022 and is expected to clock at 11-12% of CAGR over the medium term till calendar year 2027. The pre-engineered steel buildings market is expected to see good growth on account of increasing awareness regarding modern off-site construction techniques as well as rising demand for green buildings globally which has resulted in shift in focus from traditional steel buildings to pre-engineered steel buildings.

Outlook

A leading player in India's PEB segment, the company has carved a niche for itself through consistent top and bottom-line growth, driven by optimized product mix and timely project execution. With a strong order book of Rs. 1100 crore as of April 1, 2024, the company's revenue surged to Rs. 1293.30 crore in FY24 from Rs. 1123.93 crore in the previous year, bolstered by expanded operations in West Bengal and Telangana, as well as diversification into new sectors. Given its diversified customer base, the company presents an attractive investment opportunity for long-term investors.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	19-August-24
BID/ISSUE CLOSES ON	21-August-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	22-August-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	23-August-24
Credit of Equity Shares to Demat Accounts of Allottees	23-August-24
Commencement of trading of the Equity Shares on the Stock Exchanges	26-August-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	1293.30	1123.93	834.94
Total expenditure	1180.29	1017.55	802.05
Operating Profit	**113.02**	**106.38**	**32.89**
OPM%	0.87	0.95	0.39
Other Income	13.01	12.47	5.91
Total Net Income	**126.03**	**118.85**	**38.80**
Interest	2.16	2.60	4.46
PBDT	**123.87**	**116.25**	**34.35**
Depreciation	7.98	7.30	11.76
Restated Profit before tax	**115.89**	**108.95**	**22.59**
Tax	29.63	27.49	5.46
PAT	**86.26**	**81.46**	**17.13**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-24	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	106.37	103.92	99.04
Capital work-in-progress	12.68	0.00	0.00
Investment properties	2.77	2.84	3.08
Intangible assets	0.19	0.04	0.13
Right of use asset	56.54	53.58	52.61
Financial Assets			
Investments	5.36	5.01	0.01
Trade receivables	48.13	38.37	27.95
Loans	0.45	0.00	0.00
Other financial assets	2.79	1.60	4.07
Non-current tax assets (net)	2.40	1.88	1.39
Other non-current assets	2.71	4.08	1.94
Total non-current assets	**240.38**	**211.31**	**190.21**
Current asset			
Inventories	146.84	136.98	134.13
Contract assets	35.25	27.93	21.25
Financial Assets			
Trade receivables	170.75	158.71	85.70
Cash and cash equivalents	61.58	58.66	40.11
Bank balances other than (ii) above	76.13	60.54	51.65
loans	0.62	0.28	0.34
Other Financial assets	1.42	1.02	1.18
Current tax assets (net)	0.00	0.00	5.60
Other current assets	22.04	19.60	13.59
Total current assets	**514.63**	**463.72**	**353.55**
Total Assets	**755.01**	**675.03**	**543.75**
Non-current liabilities			
Financial liabilities			
Borrowings	0.64	1.11	1.02
Lease Liabilities	2.68	5.78	4.15
Government grants	0.04	0.06	0.07
Employee defined benefit obligation (net)	1.11	9.06	19.75
Deferred Tax Liabilities (Net)	5.72	5.89	2.47
Total Non- Financial liabilities	**10.20**	**21.89**	**27.46**
Current liabilities			
Contract liabilities	116.39	106.03	87.59
Financial Liabilities			
Borrowings	9.56	10.28	2.34
Lease Liabilities	0.51	0.57	0.34
Trades Payable - MSME	10.81	9.07	7.34
Trades Payable - Other than MESE	122.75	94.59	73.12
Other financial liabilities	17.15	11.86	11.10
Provisions	1.68	1.38	1.16
Government grants	0.02	0.02	0.02
Employee defined benefit obligation (net)	11.95	8.00	1.54
Other current liabilities	9.38	12.07	12.30
Liabilities for current tax (net)	0.00	0.00	1.13
Total Financial liabilities	**300.19**	**253.86**	**197.98**
Total	**310.38**	**275.75**	**225.44**
Net worth represented by:			
Equity Share Capital	14.42	15.00	15.00
Equity contribution	3.13	0.85	0.43
Capital redemption reserve	0.59	0.00	0.00
Securities premium	91.50	91.50	91.50
General reserve	18.18	56.59	56.59
Retained earnings	316.82	235.34	154.80
Net Worth	**444.63**	**399.28**	**318.32**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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