

Background & Business

Pennar's standalone business is divided into SBUs across segments such as Steel Products (21% of cons revs & 9% of cons EBITDA as per H1FY18 nos.), Tubes (12%, 10%), Industrial Components (4%, 6%) & Systems & Projects (30%, 39%). The Consolidated entity comprises of 2 subsidiaries in addition to standalone entity; namely, Pennar Engineered Building Systems (PEBS; 30%, 22%) & Pennar Enviro (PEL; 4.5%, 17%). PEBS is present in segments such as Pre-Engineered Buildings, Custom designed Steel Structures & Engineering Services while PEL is into water treatment solutions, water treatment chemicals & fuel additives.

Investment Thesis

- Tubes and Systems & Projects business continue to steer top-line growth** (Tubes segment has picked up pace (30% YoY in H1FY18) led by addition of 4 new customers in exports segment (for CDW Tubes), 5 in the domestic segment and plant approvals for TVS and Bajaj Auto for CDW/ERW tubing. As specified by management, the solar sector in India is seeing capacity expansion across companies indicating robust potential going ahead).
- PEBS powering up led by Engineering Services Division (ESD)** (Higher-margin ESD saw revenue growth of 68% YoY in Q2FY18 while Solar revenues were up 98% YoY on a low base. Current Order book at Rs.3.36bn comprises of orders from RVNL, TVS Infra, Teain Construction among others).
- Lowly leveraged balance sheet provides scope for debt-driven growth & expansion** (Gross consolidated D/E ratio of 0.68xs and Net consolidated D/E ratio of 0.39xs as on 30th September 2017).
- Merger of Pennar with PEBS and Pennar Enviro** (On 10th November, 2017, the Board of Directors have approved amalgamation PEBS and Pennar Enviro with Pennar which is subject to the necessary statutory and regulatory approvals from respective authorities. Currently, Pennar holds 54% stake in PEBS and 51% stake in Pennar Enviro. The amalgamation looks extremely positive and we are of the opinion, that this merger would provide greater potential to the combined entity to develop and further grow and diversify with better optimization of funds, efficient utilization of resources, better management & administration, reduction in costs from more focused operational efforts).

From : 26-03-2014
 To : 30-11-2017
 Performance : 235%
 Recommendation : OPEN

Outlook

Pennar is a strong candidate for giving multi-bagger returns over the next 3 – 5-year period due to twin factors of – a) broad-based earnings recovery in the economy leading to pick-up in corporate capex, and b) improving financial performance of the company both through strong drivers for organic growth and the push from the amalgamation exercise - leading to a valuation re-rating and stock price appreciation. We have high conviction on Pennar's management pedigree given the pro-active stance that they have taken; be in case of corporate debt restructuring, value addition to its commodity-based product portfolio, value unlocking of PEBS business and selling off the solar business which was not satisfying the management's IRR criteria and the recent amalgamation exercise.

