

Current	Previous
<b>CMP : Rs.59</b>	<b>CMP : Rs.47</b>
<b>Rating : BUY</b>	<b>Rating : BUY</b>
<b>Target : Rs.81</b>	<b>Target : Rs.81</b>

CMP as of Dec 8, 2014

STOCK INFO	
BSE	513228
NSE	PENIND
Bloomberg	PSL IN
Reuters	PENN.NS
Sector	Iron & Steel/Interm.Products
Face Value(Rs)	5
Equity Capital(Rs bn)	658
Mkt Cap(Rs bn)	7,187
52w H/L	66/18
3m Avg Daily Volume(BSE+NSE)	39,873,513

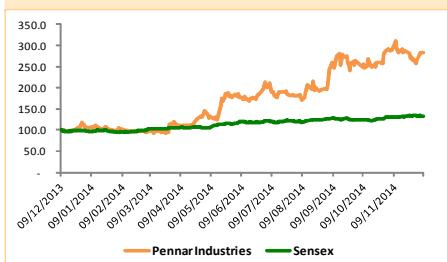
SHAREHOLDING PATTERN	%
<i>(as on Sep. 2014)</i>	
Promoter	39.4
FII	10.5
DII	11.7
Others	38.4

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
PENAR INDUSTRIES	(2.31)	9.43	185.99
SENSEX	0.90	2.93	33.92

Source: Capitaline, IndiaNivesh Research

#### PENAR IND. v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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*We recommended BUY on Pennar Industries in our stock idea report on 5th Sep-2014, at then CMP of Rs 47 with a target price of Rs 81.*

*Pennar Industries Ltd (Pennar) is the leading engineering player in India. The company manufactures Cold Rolled Steel Strips, Precision Tubes, Cold Rolled Formed Sections, Electro Static Precipitators, Railway Wagons & Coach components and Road Safety Systems. Additionally, company has diversified from a steel manufacturer to a value added steel products manufacturer. The company has further expanded its PEBS manufacturing facilities to add new products to its portfolio and expand its bottom-line.*

### Investment Rationale

**Moving from commodity to value added products:** Pennar Industries is moving from pure commodity player to value added player with its range of engineering products. This transition is helping the company improve its consolidated margin as company has added many high margin segments in its portfolio.

**Direct Play on overall macro-economic recovery:** As company caters to the large part of economy's sectors like Automobile, Infrastructure, Railway etc, it is well placed to take the advantage of any economic uptick through its diversified business portfolio.

**High Operating leverage and Low Financial leverage provides high upside and limited downside potential:** Muted economic environment has reduced capacity utilization for Pennar Industries in last couple of years. With likely economic cycle revival, increase in capacity utilization will act as major margin booster for the company. On the other hand delay in revival should not be major concern as company has low financial leverage and large part of its debt is working capital debt.

**Subsidiary PEBS is Key Growth Driver:** Other major growth driver for the company will be PEBS, which is amongst top 5 players in India. As the concept of pre-engineered building products is catching up fast in India; anyone setting up an industry now would look for early commissioning of plants, PEBS is poised for abnormally strong growth. A corporate action by the company on getting this subsidiary (PEBS) separately listed on exchanges could be the additional trigger for the stock.

### Risk & Concerns

Undue delay in Macro economic revival

### Valuations

*We recommended Buy on Pennar Industries in our stock idea report on 5th Sep-2014, at then CMP of Rs 47 with a target price of Rs 81.*

At CMP of Rs.59 (CMP as of Dec 8, 2014), Pennar Industries is trading at P/E multiple of 14.7x FY15E and 9.5x FY16E earnings estimate, which is well below 14.3x - three year historical average. Average ROE for the company is past 3 year has been 12.9%. In FY15E and FY16E, the ROE of the company is likely to improve to 12.7% and 17.0% respectively on back of increased capacity utilization and margin expansion. We value this company at conservative PE multiple of 13x to FY16E EPS (Rs.6.2), which gives the target price of Rs 81. Seeing 37% upside potential on stock from current price, we maintain BUY rating on Pennar Industries.

### Consolidated Financials

Y/e March (Rs Mn)	Net Sales	EBITDA	Adj. PAT	Equity Capital	EPS (Rs)	PE (x)
FY14A	11,133	898	260	658	2.0	29.9x
FY15E	13,580	1,358	528	658	4.0	14.7x
FY16E	17,247	1,811	816	658	6.2	9.5x

Source: Company; IndiaNivesh Research