

Pennar Industries Limited

December 13, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	483.86 (Enhanced from 315.86)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	683.50 (Enhanced from 341.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	1,167.36 (₹ One Thousand One Hundred Sixty-Seven Crore and Thirty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Pennar Industries Limited (PIL) derives strength from robust growth in total operating income with improved y-o-y profitability margins and comfortable financial risk profile. Ratings also factors experienced promoter group and management team, long track record of operations, wide product range with presence across diversified business segments and growing geographic expansion, reputed and diversified client base with healthy order book. The ratings are, however, constrained by persistent high debt, low operating and PAT margins, moderated debt coverage indicators, risks associated with volatility in raw material price, capital intensive nature of business and competition from other players.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in PBILDT margin to more than 10% while steady growth in scale of operations, on a sustained basic
- Improvement in overall gearing ratio at less than 1x, going forward.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Increase in debt levels resulting in deterioration of capital structure marked with overall gearing of 1.50x and above.
- Elongation of operating cycle to 100 days and above.
- Any significant decline in TOI or PBILDT margin falling below 6%.

Outlook: Positive

The outlook on the long-term rating of PIL has been revised from 'Stable' to 'Positive' on CARE's expectation of improvement in its business and financial risk profile in the medium term marked by steady growth in its scale of operations and improvement in its profitability margin along with healthy cash generation. The outlook may be revised to 'Stable' if there is a sizable decline in PIL's profitability or significant stretch in its working capital requirement or any material adverse impact on its debt coverage indicators due to large size capex or any other event.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoter group with strong management team

The promoters of the Pennar group have been in the engineered steel products business for more than four decades. The group is headed by Mr Nrupender Rao, who is the Chairman, and business operations of the group have benefited from his long-established track record in the diversified businesses and the vast industry network developed over the years. Mr Rao is ably supported by Mr Aditya Rao, who is the Vice Chairman & Managing Director of PIL. He holds a bachelor's degree in geophysics and master's degree in engineering management from Cornell University, New York, USA and has worked on new product development and the development of new revenue verticals including the solar power and environment treatment businesses across the group companies. PIL is managed by a professional board comprising 11 directors with all the directors having long standing industry experience. They are supported by a team of experienced and capable professionals, having considerable experience in the segment, to look after the day-to-day operations.

Robust improvement in financial performance during FY22 and H1FY23

On a consolidated basis, PIL witnessed improvement in its revenue for FY22. Total revenue from operations improved from Rs. 1525.36 crore in FY21 to Rs. 2265.75 crore in FY22 viz. improved by 48.59%. Improvement in revenue was on account improved demand and low base effect of FY21 (during FY21 for about 34 days the plant was shut due to Covid-19). The

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

PBILDT witnessed improvement by 84.76%. It grew from Rs 94.35 crore in FY21 to Rs 174.32 crore in FY22. In terms of margin the same improved from 6.19% to 7.69%. For H1FY23, company reported total revenue of Rs 1533.97 crore with PBILDT of Rs 117.86 crore vis-à-vis Rs 1040.01 crore revenue reported in H1FY22 with PBILDT of Rs 83.57 crore. CARE Ratings Limited (CARE Ratings) believes that for FY23 company's revenue will be around Rs 3000 crore with PBILDT margins of about 8%.

Diversified product range and revenue profile and growing geographic expansion

PIL is a well-diversified engineering company with end-to-end capabilities. The company has well diversified product portfolio classified into Engineered Products and Engineering Solutions- catering to six sectors, namely: automotive, construction, general manufacturing, white goods, railways, and solar. Company has a pan-India presence with ten manufacturing facilities situated across the country. Company manufactures: Cold Rolled Steel Strips, Railway wagons / Coaches, Precision Tubes, Pre-Engineered Building Systems, Solar module mounting structures & Photo Voltaic panels, Sheet Metal Components, Hydraulic Cylinders, Road Safety Systems, Water & Sewage treatment solutions, Desalination projects. To better diversify its geographic presence, PIL is consolidating its position in markets outside India as well. The revenue from export has contributed 21% in FY22 of the total revenue up from 6% in FY21. It is expected to further increase going forward. With expansion into international business, the company has now established itself globally covering the US, European and Australian markets.

Reputed and diversified client base

PIL is an established player in the industry and the clientele comprises renowned names in the industrial and manufacturing industry from which the company has been garnering repeat orders. As the products are technical in nature, clients share related designs, and the products are manufactured to exclusively cater to their requirements. Thus, the likelihood of switching to some other supplier is less. A brief snapshot of the different business verticals with the respective product offerings and key clients is as follows –

Vertical	Key clients served
Steel Products and profiles	JSW Steel Ltd, Ashok Leyland Ltd, Adani Power Ltd, Johnson Lifts Private Ltd, Waaree Industries Ltd, Lloyds Insulation Limited, Alstom Projects India Ltd, Lanco Infratech Ltd, FLSmidth Pfister India Ltd, Thermax Ltd
Systems and projects	Railways: Integral Coach Factory (Perambur), Modern Coach Factory (Rae Bareli), Texmaco Rail & Engineering Ltd (Kolkatta), Hindustan Engineering India Ltd - Kolkatta, Cimmco Ltd. — Kolkatta, BEML Limited (Bangalore). Solar: L&T Construction, Tata Power Renewable Energy, Lanco Solar Energy Private Ltd, ABB India Ltd, Schneider Electric India and Sterling and Wilson Private Ltd
Tubes	Mahindra & Mahindra Ltd, Gabriel India, Yamaha, Bridgestone, MRF Ltd, VE Commercial Vehicles Limited, TVS Motor Company Ltd, Tata Motors Ltd and Ashok Leyland Ltd
Industrial components division	Tecumseh Products India Private Ltd, Emerson Climate Technologies Private Ltd, Endurance Technologies Ltd, India Nippon Electricals Ltd, IFB Automotive Private Ltd, Fleetguard Filters Private Ltd
PEBS	Hindustan Unilever Ltd, ITC Ltd, Tata Power Ltd, Mylan Laboratories Ltd, Bosch Ltd, Amazon Seller Services Private Ltd, MRF Ltd, Reliance Ltd, Audi India Private Ltd, Larsen & Turbo, Volvo India Private Ltd, ABB India Ltd, Dr. Reddy's Laboratories Ltd, Procter & Gamble, Schindler India Private Ltd, Godrej Group, Hindustan Construction Company, Ultratech Cement, Ambuja Cement, My Home group, etc.
Water & Sewerage Treatment Solutions	ONGC, JSW, Hetero group, BHEL Limited and Shantha. The Company added 18 new clients, which are Flipkart, Divislab, GMR, Rutam, Lixil, PEBS, Andhra Sugar, Aurobindo, Covalent, Cinda, Deepak Nexgen, Kundana, Aditya Engineers, OCCL, Hetro, USL, Jocil, and Deraz. Over 04 projects completed during FY2021, number of new clients – 19 in FY2021; Total accumulated client count – 102, Number of dealers added in FY2021 – 04; Total number of dealers – 16

Stable financial risk profile during FY22

Capital structure as represented by overall gearing of the company marginally deteriorated to 1.24x as on March 31, 2022, as compared to 1.19x as on March 31, 2021 due to rise in the total debt of the company by Rs 90 crore (including acceptance). On account of improved performance, the other debt indicators like interest coverage and Total debt/GCA have, however, improved. Interest coverage have improved from 1.18x in FY21 to 2.22x in FY22. Likewise, Total debt/GCA have improved from 17.02x in FY21 to 9.89x in FY22.

Key rating weaknesses**Volatility associated with input prices**

The raw material cost is the major cost component and accounted for 60-65% of the total cost of sales in the last three years ended FY22. The major raw material, hot rolled steel strips, accounts for about 55-60% of the total raw material consumption for the company, with balance 40-45% being other raw materials for down steel and specialty products. The prices of hot rolled steel strips are volatile in nature resulting in susceptibility of profitability to adverse movement of input prices.

Low profitability margin

PIL, for FY22, has reported PBILDT of Rs 174.32 crore and PAT of Rs 44.78 crore on the total operating income of Rs 2265.75 crore. In terms of margin of PBILDT margin stood at 7.69% and PAT margin at 1.98%. Though PBILDT margins have improved from 6.19% in FY21 to 7.69% in FY22 however the same remains at low level. Care Ratings believes that with company's increased focus on value added products and shifting from low margin business the margin profile is expected to improve.

High competition from major players

The engineering segment is a highly competitive and low margin business with competition from large integrated steel manufacturers. However, the industry growth prospects are stable with significant railway budget announced, growth in renewable energy segment and improvement in the automobile industry

Liquidity: Adequate

The liquidity position of the company remains adequate with operating cycle of the company improved to 88 days in FY22 vis-a-vis 109 days in FY21. The gross cash accruals improved from Rs 47.59 crore in FY21 to Rs 91.05 crore in FY22. The company had cash and liquid investments, excluding margin money, to the tune of Rs 116.24 crore (PY: Rs 61.89 crore) as on March 31, 2022 and Rs. 122 crore as on September 30, 2022 with the average working capital utilisation for the company stood around 75%. During FY23, the company has total term debt obligation of ~Rs. 64 crore out of which it has already met Rs. 32 crore. Considering the cash accruals generated by the company in the recent past along with its performance during H1FY23, CARE Ratings expects the company to generate cash accruals in the range of Rs. 120 crore to Rs. 130 crore during FY23 which is adequate to meet the balance debt obligations during FY23.

Analytical approach: CARE in its analysis has considered the consolidated business and financial risk profiles of Pennar Industries Ltd and its subsidiaries, together referred to as Pennar group, as the entity is linked through a parent-subsidiary relationship and collectively have management, business & financial linkages. The subsidiaries of PIL which have been consolidated are mentioned in Annexure-6

Applicable criteria

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Manufacturing Companies](#)

[Policy on default recognition](#)

[Policy on Withdrawal of Ratings](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

About the company

Pennar Industries Limited (PIL) incorporated in 1975 is promoted by Mr Nrupender Rao. With an annual production capacity of more than 3,50,000 MTPA, PIL is a multi-location, multi-product company manufacturing precision engineering products such as: Cold Rolled Steel Strips, Railway wagons / Coaches, Precision Tubes, Pre-Engineered Building Systems, Solar module mounting structures & Photo Voltaic panels, Sheet Metal Components, Hydraulic Cylinders, Road Safety Systems, Water & Sewage treatment solutions, Desalination projects etc. The Company has a well-diversified product portfolio classified into Engineered Products and Engineering Solutions, catering to six sectors, namely: Automotive, Construction, General Manufacturing, White Goods, Railways, and Solar.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1525.36	2265.75	1533.97
PBILDT	94.35	174.32	117.86
PAT	2.84	44.78	30.46
Overall gearing (times)	1.19	1.24	NA
Interest coverage (times)	1.18	2.22	7.68

A: Audited, UA: Un-audited, NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	334.00	CARE A-; Positive
Fund-based - LT-Term Loan		-	-	31/07/2027	149.86	CARE A-; Positive
Non-fund-based - ST-BG/LC		-	-	-	638.00	CARE A2+
Non-fund-based - ST-Forward Contract		-	-	-	0.50	CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	45.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	334.00	CARE A-; Positive	-	1)CARE A-; Stable (04-Mar-22) 2)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)
2	Fund-based - LT-Term Loan	-	-	-	-	1)CARE A-; Stable (04-Mar-22)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (12-Mar-20)

						2)CARE A-; Stable (05-Apr-21)		2)CARE A; Stable (21-Aug-19)
3	Non-fund-based - ST-BG/LC	-	-	-	-	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)
4	Non-fund-based - ST-BG/LC	-	-	-	-	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)
5	Fund-based - LT- Cash Credit	-	-	-	-	1)CARE A-; Stable (04-Mar-22) 2)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)
6	Fund-based - LT- Term Loan	LT	149.86	CARE A-; Positive	-	1)CARE A-; Stable (04-Mar-22) 2)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)
7	Non-fund-based - ST-Letter of credit	ST	45.00	CARE A2+	-	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)
8	Non-fund-based - ST-BG/LC	ST	638.00	CARE A2+	-	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A; Stable / CARE A1 (21-Aug-19)
9	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A2+	-	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)
10	Non-fund-based - ST-BG/LC	-	-	-	-	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)	1)CARE A1 (12-Mar-20) 2)CARE A; Stable / CARE A1 (21-Aug-19)
11	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	-	1)Withdrawn (05-Apr-21)	1)CARE A1 (06-Apr-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of subsidiaries

Name of companies/ Entities	% of holding
Pennar Global INC	100
Enertech Pennar Defence and Engineering Systems Private Limited	51
Pennar GmbH, Germany	100

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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