Pennar Industries Limited

September 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	523.86 (Enhanced from 483.86)	CARE A-; Positive	Reaffirmed
Short Term Bank Facilities	783.50 (Enhanced from 683.50)	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Pennar Industries Limited (PIL) continues to derive strength from robust growth in total operating income with improved y-o-y profitability margins and comfortable financial risk profile during FY23 and Q1FY24. 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 albeit improving, moderated debt coverage indicators, risks associated with volatility in raw material price, capital intensive nature of business and competition from other players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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

- 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%.

Analytical approach: Consolidated

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.

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 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.

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

Robust improvement in financial performance during FY23

The company's overall performance during FY23 is better than its projections. During FY23, the company witnessed healthy growth in its revenue from operation. The revenue improved by about 28% to Rs 2924 crore (PY:Rs 2279 crore). Growth in revenue was driven by growth in the revenue in product division by about 15% from Rs 1290 crore in FY22 to 1480 crore in FY23 and in the engineering solutions division where company registered robust growth of about 48% from Rs 895 crore in FY22 to Rs 1323 crore in FY23.

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. 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. — Kolkata, 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.

Stable financial risk profile during FY23

Capital structure as represented by overall gearing of the company marginally improved to 1.22x as on March 31, 2023, as compared to 1.24x as on March 31, 2022 due to rise in the networth of the company by Rs 55 crores on account of net profits. On account of improved performance, the other debt indicators like interest coverage and Total debt/GCA have, have also improved. Interest coverage have improved from 2.35x in FY22 to 2.75x in FY23. Likewise, Total debt/GCA have improved from 10.21x in FY22 to 6.74 x in FY23.

Key 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 FY23. 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 PBILDT and PAT margin

PIL, for FY23, has reported PBILDT of Rs 250.57 crore and PAT of Rs 75.43 crore on the total operating income of Rs 2923.82 crore. In terms of margin of PBILDT margin stood at 8.57% and PAT margin at 2.58%. Though PBILDT margins have improved from 8.10% in FY22 to 8.57% in FY23 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 further.

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 reducing to 75 days in FY23 (FY22: 88 days) vis-a-vis 109 days in FY21. The gross cash accruals improved from Rs 88 crore in FY22 to Rs. 139 crores. The company had cash and liquid investments, excluding margin money, to the tune of Rs 199.56 crore (PY: Rs 116.24 crore) as on March 31, 2023 with the average working capital utilisation for the company stood around 82%. During FY24, the company has total term debt obligation of ~Rs. 53 crores. Considering the cash accruals generated by the company in the recent past along with its performance during FY23 & Q1FY24, 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.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks:
Environment: The company prioritises eco-friendly processes, resource efficiency, and waste reduction. It is also obtained certification for ISO 14001:2015 Environmental Management Systems through TUV NORD.
Social: Among the social aspects the company focuses on providing accessible education, women empowerment and investing more in research and development projects in the domains of science, technology, engineering, and medicine.
Governance: Governance remains a universal concept affecting companies across sectors. The company is a part of an experienced promoter group with a strong management team and this is considered as one of its rating strengths. The company has necessary internal controls in place and an audit committee to oversee the same.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

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, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	2278.77	2923.82	748.89
PBILDT	184.47	250.57	73.72
PAT	41.91	75.43	21.81
Overall gearing (times)	1.24	1.22	NA
Interest coverage (times)	2.35	2.75	2.65

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	374.00	CARE A-; Positive
Fund-based - LT-Term Loan	-	-	-	31/07/2027	149.86	CARE A-; Positive
Non-fund-based - ST-BG/LC	-	-	-	-	738.00	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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	374.00	CARE A-; Positive	-	1)CARE A-; Positive (13-Dec-22)	1)CARE A-; Stable (04-Mar-22) 2)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)
2	Fund-based - LT-Term Loan	-	-	-	-	-	1)CARE A-; Stable (04-Mar-22)	1)CARE A; Stable (06-Apr-20)

							2)CARE A-; Stable (05-Apr-21)	
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)
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)
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)
6	Fund-based - LT-Term Loan	LT	149.86	CARE A-; Positive	-	1)CARE A-; Positive (13-Dec-22)	1)CARE A-; Stable (04-Mar-22) 2)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)
7	Non-fund-based - ST-Letter of credit	ST	45.00	CARE A2+	-	1)CARE A2+ (13-Dec-22)	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)
8	Non-fund-based - ST-BG/LC	ST	738.00	CARE A2+	-	1)CARE A2+ (13-Dec-22)	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)
9	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A2+	-	1)CARE A2+ (13-Dec-22)	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)	1)CARE A1 (06-Apr-20)
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)
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 covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries as of March 31, 2023

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 the 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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