Pennar Industries Limited

December 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	523.86	CARE A; Stable	Revised from CARE A-; Positive
Short-term bank facilities	783.50	CARE A1	Revised from CARE A2+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the long-term and short-term ratings assigned to the bank facilities of Pennar Industries Limited (PIL) factors in the steady growth in its total operating income (TOI) over FY21 to FY23 and the improved product mix and increased contribution from exports, resulting in improved profitability margins. The company has witnessed a CAGR growth of around 38% in its TOI and around 59% in its profit before interest, lease rentals, depreciation and taxation (PBILDT) over FY21-FY23.

The ratings are also underpinned by the experienced promoter group and management team, the long track record of operations, the wide product range with presence across diversified business segments, the growing geographical expansion, and the reputed and diversified client base with a healthy order book.

The ratings are, however, constrained by the persistent debt-funded capex, the moderated debt coverage indicators, risks associated with the volatility in raw material prices, the capital-intensive nature of business, and the competition from other players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the PBILDT margin to more than 10% with steady growth in the scale of operations on a sustained basis.
- Total debt (TD)/PBILDT going below 2.5x, going forward.

Negative factors

- Increase in the debt levels, resulting in a deterioration in the capital structure, marked by the TD/PBILDT going beyond 4x.
- Elongation of the operating cycle to 95 days and above.
- Any significant decline in the TOI or PBILDT margin falling below 6%.

Analytical approach

CARE Ratings Limited (CARE Ratings), in its analysis, has considered the consolidated business and financial risk profiles of PIL and its subsidiaries, together referred to as the Pennar group, as the entity is linked through a parent-subsidiary relationship and collectively have management, business and financial linkages. The subsidiaries of PIL that have been consolidated are mentioned in Annexure-6.

Outlook: Stable

The stable outlook reflects the expectation that the company will maintain its established market position and continue to improve its operating performance at the back of a healthy product mix.

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 Nrupender Rao, Chairman, and the business operations of the group have benefited from his long-established track record in diversified businesses and the vast industry network developed over the years. Rao is ably supported by Aditya Rao,

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

Vice Chairman & Managing Director of PIL. He holds a Bachelor's degree in geophysics and a Master's degree in engineering management from the Cornell University in New York, US, 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, 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.

Diversified product portfolio

PIL is a well-diversified engineering company with end-to-end capabilities. The company has a well-diversified product portfolio classified into engineered products, engineering solutions, and engineering services, catering to six sectors, namely, automotive, construction, general manufacturing, white goods, railways, and solar. The company has a pan-India presence, with eight manufacturing facilities situated across the country. PIL manufactures cold-rolled steel strips, railway wagons and coaches, precision tubes, pre-engineered building systems (PEBS), solar module mounting structures and photovoltaic panels, sheet metal components, body-in-white hydraulic cylinders. It further provides road safety systems, water and sewage treatment solutions, and undertakes desalination projects, among others.

Improved product and geographical diversification

Over the past few years, PIL has strategically diversified its product portfolio within each segment and reduced its dependence on steel products and the railways segment, which witnessed high revenue concentration in the past. The company has added various products like hydraulic cylinders, pressed components, cold drawn welded (CDW) tubes, and other fabricated products to its portfolio to reduce the dependence on a particular segment. Furthermore, to better diversify its geographical presence, the company is consolidating its position in markets outside India as well. The revenue from exports has improved to around 25% in FY23, up from 21% in FY22 and around 3% in FY21. CARE Ratings expects that the contribution from the exports market will further increase, going forward. With expansion into the international business, PIL has now established itself globally, covering the US, the European and Australian markets.

The geographical break-up of revenue on a consolidated basis is as follows:

(₹ crore)

Particulars	FY21	Percentage	FY22	Percentage	FY23	Percentage
India	1,481.6	97	1,793.8	79	2,175.6	75
Other countries	43.7	3	471.9	21	718.9	25
Total	**1,525.35**	**100**	**2,265.75**	**100%**	**2,894.6**	**100**

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
Steel products and profiles	JSW Steel Limited, Ashok Leyland Limited, Adani Power Limited, Johnson Lifts Private Limited, Waaree Industries Limited, Lloyds Insulation Limited, Alstom Projects India Limited, Lanco Infratech Limited, FLSmidth Pfister India Limited, Thermax Limited
Systems and projects	Railways: Integral Coach Factory (Perambur), Modern Coach Factory (Rae Bareli), Texmaco Rail & Engineering Limited (Kolkata), Hindustan Engineering India Limited – Kolkata, Cimmco Limited (Kolkata), BEML Limited (Bengaluru). Solar: L&T Construction, Tata Power Renewable Energy, Lanco Solar Energy Private Limited, ABB India Limited, Schneider Electric India, and Sterling and Wilson Private Limited

Vertical	Key Clients
Tubes	Mahindra & Mahindra Limited, Gabriel India, Yamaha, Bridgestone, MRF Limited, VE Commercial Vehicles Limited, TVS Motor Company Limited, Tata Motors Limited, and Ashok Leyland Limited
Industrial components division	Tecumseh Products India Private Limited, Emerson Climate Technologies Private Limited, Endurance Technologies Limited, India Nippon Electricals Limited, IFB Automotive Private Limited, Fleetguard Filters Private Limited
PEBS	Hindustan Unilever Limited, ITC Limited, Tata Power Limited, Mylan Laboratories Limited, Bosch Limited, Amazon Seller Services Private Limited, MRF Limited, Reliance Limited, Audi India Private Limited, Larsen & Turbo, Volvo India Private Limited, ABB India Limited, Dr. Reddy's Laboratories Limited, Procter & Gamble, Schindler India Private Limited, Godrej Group, Hindustan Construction Company, UltraTech Cement, Ambuja Cement, My Home Group, etc.

PIL has over 500 clients and no single client generates more than 5% revenue for the company, thus it is protected against client concentration risk.

Robust improvement in financial performance during FY23

PIL has, on a consolidated basis, witnessed improvement in its revenue for FY23 and H1FY24. The total revenue from operations improved from ₹2,268.42 crore in FY22 to ₹2,912.16 crore in FY23, viz, improved by 28.40%. The absolute PBILDT and profit-after-tax (PAT) witnessed improvement by 37% (PBILDT: from ₹174 crore in FY22 to ₹239 crore in FY23) and 77% (PAT: from ₹42 crore in FY22 to ₹75 crore in FY23). In terms of margins, the PBILDT margin improved by 52 bps in FY23 to 8.20% from 7.68% in FY22. For H1FY24, the company reported a total revenue of ₹1,563 crore with a PBILDT of about ₹132 crore vis-à-vis ₹1,534 crore revenue reported in H1FY23 with a PBILDT of ₹91 crore. The below table highlights the same:

(₹ crore)

	FY21	FY22	FY23	Two-year CAGR Growth Percentage
TOI	1,525.36	2,268.42	2,912.16	38
PBILDT	94.35	174.12	238.91	59
PBILDT%	6.19	7.68	8.20	201 bps
PAT	2.84	41.91	75.43	415
PAT%	0.19	1.85	2.59	240 bps

Stable and improving financial risk profile

The financial risk profile of PIL has, over time, been stable and there has been gradual improvement in the same. The capital structure, as represented by the 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. On account of the improved performance, the other debt indicators like interest coverage and TD/gross cash accruals (GCA) have improved as well. The interest coverage improved from 2.22x in FY22 to 2.62x in FY23. Likewise, the TD/GCA improved from 10.21x in FY22 to 6.73x in FY23. With the improvement in the overall operational performance, CARE Rating expects the debt coverage indicators to further improve over time.

Improved operating cycle and liquidity

PIL has witnessed overall improvement in its operating cycle and liquidity position on account of the improved product, client, and geographical mix. The PEBS segment of the company in the US has a low operating cycle. PIL realises the receivables in about 15 days. The contribution from this segment in the overall revenue is also increasing. The operating cycle of PIL has improved in FY23 to 75 days from 109 days in FY21 and 88 days in FY22. The average collection period and inventory days have improved by 23 days in FY23 and stood at 150 days (average collection period: 52 days and average inventory period: 98 days). The creditor days has also reduced from 116 days in FY21 to 85 days in FY22 and to 75 days in FY23. The GCA accruals improved by about 57% to ₹139 crore from ₹88 crore in FY22E. With the improvement in revenue from the US market and faster realisation of the receivables, CARE Ratings envisages the company to have its operating cycle in the range of 65-75 days going forward.

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, steel strips, accounts for about 65-70% of the total raw material consumption for the company, with the balance being other raw materials. The prices of steel strips are volatile in nature, resulting in susceptibility of profitability to adverse movements of input prices.

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 growth anticipated in the automobile, the railways, renewable, and capital goods segments.

Liquidity: Adequate
The liquidity position of the company is adequate. During FY23, PIL generated cash accruals of about ₹139 crore against the total repayment obligations of around ₹47 crore. The cash and liquid balance as on September 30, 2023, stood at around ₹140 crore. The company has debt repayment obligations to the tune of about ₹62 crore (net of lease liabilities). CARE Ratings expects the company to generate cash accruals in the range of ₹150-175 crore in FY24. Given the cash and liquid balance that PIL has and the expected cash accruals, CARE Ratings believes that the company will be in a comfortable position to meet all its debt obligations.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks
PIL is a diversified engineering company. Through its operations, the company has adopted practices that are environmentally-friendly, reduce waste and enhance efficiency, aimed towards a greener environment. The company is ISO 14001:2015 certified by TUV NORD in environmental management systems. PIL's practices encompass responsible agro forestry, which aids in nurturing the environment, thus fostering economic growth. Additionally, the company has been making efforts to conserve natural resources. For the overall well-being of society, PIL is working towards fostering education, vocational skill enhancement and livelihood projects, with a special focus on children, women, the elderly and the differently abled. The company has an independent and professional Board, which brings in transparency, accountability, and equity across all facets of operations.

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

PIL, incorporated in 1975, is promoted by Nrupender Rao. With an annual production capacity of more than 350,000 metric tonne (MT), PIL is a multi-location, multi-product company, manufacturing precision engineering products such as cold-rolled steel strips, railway wagons and coaches, precision tubes, PEBS, solar module mounting structures and photovoltaic panels, sheet metal components, and hydraulic cylinders. It further provides road safety systems, water and sewage treatment solutions, and undertakes desalination projects, among others. The company has a well-diversified product portfolio classified into engineered products, engineering solutions, and engineering services, catering to six sectors, namely, automotive, construction, general manufacturing, white goods, railways, and solar.

Brief Consolidated Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	2,268.42	2,912.16	1,563.00
PBILDT	174.12	238.91	132.00
PAT	41.91	75.43	44.00
Overall gearing (times)	1.24	1.22	-
Interest coverage (times)	2.22	2.62	2.28

A: Audited; UA: Unaudited. Note: The above results are the latest financial results 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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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; Stable
Fund-based - LT-Term coan	-	-	-	20/06/2027	149.86	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	738.00	CARE A1
Non-fund-based - ST-Forward contract	-	-	-	-	0.50	CARE A1
Non-fund-based - ST-Letter of credit	-	-	-	-	45.00	CARE A1

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; Stable	1)CARE A-; Positive (12-Sep-23)	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) 2)CARE A-; Stable (05-Apr-21)	1)CARE A; Stable (06-Apr-20)
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; Stable	1)CARE A-; Positive (12-Sep-23)	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 A1	1)CARE A2+ (12-Sep-23)	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 A1	1)CARE A2+ (12-Sep-23)	1)CARE A2+ (13-Dec-22)	1)CARE A2+ (04-Mar-22) 2)CARE A2+	1)CARE A1 (06-Apr-20)

							(05-Apr-21)	
9	Non-fund-based - ST-Forward contract	ST	0.50	CARE A1	1)CARE A2+ (12-Sep-23)	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 the 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 on March 31, 2023

Name of Company/Entity	Percentage of Holding
Pennar Global INC	100
Enertech Pennar Defense and Engineering Systems Private Limited	51
Pennar GmbH, Germany1	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-67543505 E-mail: pulkit.agarwal@careedge.in Naveen Kumar Dhondy Associate Director **CARE Ratings Limited** Phone: +91-40-4010-2030 E-mail: dnaveen.kumar@careedge.in Pritesh Rathi Assistant Director **CARE Ratings Limited** E-mail: Pritesh.Rathi@careedge.in

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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