

Pennar Industries Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	702.24 (Enhanced from 523.86)	CARE A; Stable	Reaffirmed
Short-term bank facilities	55.00	CARE A1	Assigned
Short-term bank facilities	828.50 (Enhanced from 783.50)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Pennar Industries Limited (PIL) derive strength from steady growth in total operating income (TOI) with improving profitability margins and comfortable financial risk profile. Ratings also factor experienced promoter group and management team, long track record of operations, wide product range with presence across diversified business segments with growing geographic expansion, and reputed and diversified client base with healthy order book. However, ratings are constrained by persistent debt-funded capex, moderated debt coverage indicators, risks associated with raw material price volatility, capital intensive nature of business, and competition from other players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving profit before interest, lease rentals, depreciation and tax (PBILDT) margin to more than 10% with steady growth in scale of operations on a sustained basis.
- Total debt to PBILDT below 2.5x going forward.

Negative factors

- Increasing debt levels resulting in deteriorating capital structure marked by total debt/PBILDT going beyond 4x.
- Elongating operating cycle to 95 days and above.
- Significantly declining TOI or PBILDT margin falling below 6%.

Analytical approach: Consolidated

In its analysis, CARE Ratings has considered the consolidated business and financial risk profiles of PIL and its subsidiaries, together referred to as Pennar group, as the entity is linked through a parent-subsidiary relationship and collectively have management, business, and financial linkages. The list of entities consolidated are given 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 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 its business operations have been benefited from his long-established track record in diversified businesses and the vast industry network developed over the years. He is ably supported by Aditya Rao, 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 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.

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

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, and body-in-white hydraulic cylinders. It further provides road safety systems, water and sewage treatment solutions, and undertakes desalination projects, among others.

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.
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, and others.

Steady growth in operations with improving margins

The company's overall performance has been improving year-on-year. Its TOI has improved at a compounded annual growth rate (CAGR) of over 10% from FY20 to FY24, rising from ₹2,107 crore in FY20 to ₹3,133 crore in FY24. Compared to FY23, PIL reported a revenue growth of approximately 7.58% in FY24, with TOI increasing from ₹2,912 crore in FY23 to ₹3,133 crore in FY24. Improvement in revenue is supported by improved demand of its product and price realisation. Together with improvement in TOI, the company's PBILDT margin has also improved by 59 bps to 8.79% in FY24 from 8.20% reported in FY23. The improvement in PBILDT margin can be attributed to higher contribution of higher margin products in the overall revenue of the

company. CARE Ratings expects that with the rising contribution of higher margin products and PEBS division, the company's PBILDT margins will be gradually improving to 10%.

Stable operating cycle

The company has witnessed overall improvement in its operating cycle with comfortable liquidity position. The improvement is considering improved product, client and geography mix. The company's PEB segment in the US has low operating cycle. The company realises the receivables in about 15 days. The contribution from this segment in the overall revenue is also increasing. The company's operating cycle in FY24 has marginally improved to 70 days from 75 days in FY23.

The gross cash accruals (GCA) improved by about 17% to ₹162 crore in FY24 from ₹139 crore in FY23. As on March 31, 2024, company had cash and liquid investments, excluding margin money, to the tune of ₹127.68 crore (PY: ₹170.20 crore).

Key weaknesses

Moderated despite stable financial risk profile

The company's financial risk profile though moderated marginally, remained stable in FY24. The total debt (including acceptance) increased from ₹936 crore as on March 31, 2023, to ₹1,146 crore as on March 31, 2024, which led to moderation in capital structure. The increase in debt is primarily considering increase in acceptances and working capital borrowings. While debt to equity remained stable at 0.28x (PY:0.29x), the overall gearing has moderated to 1.32x as on March 31, 2024, from 1.22x as on March 31, 2023. Other debt coverage metrics such as total debt to PBILDT and total debt to GCA have also moderated to 4.16x and 7.05 x in FY24 from 3.92x and 6.73x reported, respectively, in FY23.

Volatility associated with input prices

The raw material cost is the major cost component and accounted for 60-65% of total cost of sales in the last three years ended FY24. The major raw material, steel strips, accounts for about 55-60% of the total raw material consumption for the company, with the balance being other raw materials. The steel strips prices are volatile in nature, resulting in profitability susceptible 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 company's liquidity position is adequate. In FY24, PIL generated cash accruals of over ₹160 crore against the total repayment obligations of around ₹78 crore. The cash and liquid balance as on March 31, 2024, stood at around ₹110 crore. The company has debt repayment obligations to the tune of about ₹77 crore in FY25. CARE Ratings expects the company to generate cash accruals between ₹175 and ₹190 crore in FY25. Given PIL's cash and liquid balance and the expected cash accruals, CARE Ratings believes that the company will be in a comfortable position to meet all its debt obligations comfortably.

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 TUV India certified for ISO 9001,14001,45001 in management systems. To ensure a healthy and safe workplace, the company has environment, occupational health, and safety management system (EOHS) in place. The company has implemented the PIL occupational health and safety policy, ISO 45001:2018, and ISO 14001:2015. 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 the 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

[Consolidation](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Other industrial products

Incorporated in 1975, PIL 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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	2912.16	3132.76	733.45
PBILDT	238.91	275.22	71.57
PAT	75.43	98.35	26.40
Overall gearing (times)	1.22	1.32	-
Interest coverage (times)	2.62	2.39	2.65

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	450.00	CARE A; Stable
Fund-based - LT-Term loan	-	-	-	31/07/2027	252.24	CARE A; Stable
Fund-based - ST-Vendor financing	-	-	-	-	55.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	778.00	CARE A1
Non-fund-based - ST-Forward contract	-	-	-	-	0.50	CARE A1
Non-fund-based - ST-Letter of credit	-	-	-	-	50.00	CARE A1

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash credit	LT	450.00	CARE A; Stable	-	1)CARE A; Stable (07-Dec-23) 2)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)
2	Fund-based - LT-Term loan	LT	252.24	CARE A; Stable	-	1)CARE A; Stable (07-Dec-23) 2)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)
3	Non-fund-based - ST-Letter of credit	ST	50.00	CARE A1	-	1)CARE A1	1)CARE A2+	1)CARE A2+ (04-Mar-22)

						(07-Dec-23) 2)CARE A2+ (12-Sep-23)	(13-Dec-22)	2)CARE A2+ (05-Apr-21)
4	Non-fund-based - ST-BG/LC	ST	778.00	CARE A1	-	1)CARE A1 (07-Dec-23) 2)CARE A2+ (12-Sep-23)	1)CARE A2+ (13-Dec-22)	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)
5	Non-fund-based - ST-Forward contract	ST	0.50	CARE A1	-	1)CARE A1 (07-Dec-23) 2)CARE A2+ (12-Sep-23)	1)CARE A2+ (13-Dec-22)	1)CARE A2+ (04-Mar-22) 2)CARE A2+ (05-Apr-21)
6	Fund-based - ST-Bill discounting/ Bills purchasing	ST	-	-	-	-	-	1)Withdrawn (05-Apr-21)
7	Fund-based - ST-Vendor financing	ST	55.00	CARE A1				

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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	Fund-based - ST-Vendor financing	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Non-fund-based - ST-Forward Contract	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Pennar Global INC	Full	Subsidiary
2	Enertech Pennar Défense and Engineering Systems Private Limited	Full	Subsidiary
3	Pennar GmbH, Germany	Full	Subsidiary

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

Contact us

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About us:

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