PENNAR INDUSTRIES LIMITED

April 06, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	586.72 (Enhanced from 507.75)	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	708.50 (Enhanced from 654)	**CARE A1 (A One)**	**Reaffirmed**
Total	**1295.22 (Rs. One Thousand Two Hundred and Ninety Five Crore and Twenty Two lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the enhanced bank facilities of Pennar Industries Limited (PIL) continue to draw strength from 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, satisfactory operational performance, comfortable capital structure, satisfactory operating cycle and liquidity position. The ratings also take into account further improvement in revenues albeit decline in profitability margins during FY19. The ratings are, however, constrained by deteriorated debt coverage indicators, risks associated with volatility in raw material price, capital intensive nature of business with persistent debt funded capex and competition from other players.

Rating sensitivities

Positive Factors

- Ability to derive benefits from the new products resulting in improvement in PBILDT margin to 12% and above on a sustained basis

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 120 days and above.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of the group

Incorporated in 1975 as a cold rolled steel strips manufacturer, PIL has expanded its business profile with acquisition of related companies, setting up new plants, expansion of existing units and diversifying into value-added products in the engineering & infrastructure segment. Furthermore, the company continues to have increased presence in the pre-engineered business segment and water & environment infrastructure business. The company demonstrates engineering excellence and has a strong pedigree. Further, erstwhile subsidiaries; Pennar Engineered Building System Limited (PEBSL) and Pennar Enviro Limited (PEL) stand amalgamated with PIL.

Experienced promoter group with strong management team

The promoters of Pennar group have been in the engineered steel products business for more than four decades. The company is headed by Mr Nrupender Rao (Chairman) and Mr. Aditya Rao (Vice Chairman and MD), who have long presence in the industry. Furthermore, PIL is managed by a professional board comprising 12 directors with all the directors having long-standing industry experience of more than two decades.

Diversified product range and revenue profile and growing geographic expansion

PIL has a diversified product portfolio having wide industrial use ranging from automobile, infrastructure, white goods, general engineering, domestic appliances, buildings solar and construction and railways. PIL

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

is also an approved vendor for railways for supply of wagon/coach components viz. under frame components, floors, walls, etc. The company also has presence in the pre-engineered building segment, and water & environment infrastructure business. The revenue profile of PIL is thus diversified with contributions from four major business units viz. Steel Products, Systems & Projects, Tubes and Industrial Components. The company has been gradually diversifying its revenue stream with a view to reduce concentration on the steel and railway vertical and has been consistently making investments in expansion of its product portfolio across different verticals. To better diversify its geographic presence, the company is consolidating its position in markets outside India as well.

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. The clientele includes Ashok Leyland Ltd, Lloyds Insulation Limited, Integral Coach Factory (Perambur), Modern Coach Factory (Rae Bareli), L&T Construction, Hindustan Unilever Ltd, Emerson Climate Technologies Private Ltd, etc among others.

Satisfactory operational performance

The capacity utilization of PIL's plants has remained at a satisfactory level over the years. The Company has seen robust momentum in new orders across all product segments from existing as well as new customers. During FY19, the company added new product range in the existing portfolio. The operational performance of PIL's major business verticals witnessed improvement during FY19 and 9MFY20. The sales volumes as well as realisations improved for almost all the segments of the company backed by increasing demand.

Improvement in total operating income

PIL registered a substantial y-o-y growth of 21% in total operating income during FY19 to Rs.2149.29 crore (consol.) mainly at the back of significant improvement in volumes as well as realisations across the segments.

Further, the turnover and net profits of the company also improved during 9MFY20 when compared to corresponding period previous year.

Comfortable capital structure

The capital structure of the company remained comfortable as on March 31, 2019, on consolidated basis, with both debt-equity and overall gearing ratio below unity as on the said date despite increased debt levels on account of healthy accretion of profits to networth. During the year, the company witnessed increase in outstanding term debt due to additional term loan and working capital borrowings availed by PIL during the year to support the expanding scale of operations.

Satisfactory operating cycle and liquidity position

PIL has a satisfactory operating cycle despite its operations in working capital intensive business. The operating cycle was generally between 1.5-2.5 months on an average. The same, however extended to around 82 days for FY18/19 from 50 days in FY17 on account of decrease in creditor period during the year with inventory and collection days remaining at almost the same level. Erstwhile PEBSL earlier used to issue LC of 180 days to creditors which had resulted in higher creditor days in FY17. However, from FY18, the policy has been aligned with PIL (LC of 90 days) which resulted in reduction of creditors. This apart, PIL usually has higher inventory as the company stocks bulk raw materials on account of fluctuation in prices of raw material.

The liquidity profile has been comfortable, with adequate gross cash accrual generation, moderate workings capital utilisation (at about 71% during the 12 month period ended January 31, 2020) and sufficient cash balance/liquid investment maintained.

Key Rating Weaknesses

Decline in profitability margins during FY19

Despite increase in the TOI of the company; the operating profitability of the company declined by 11% in FY19 vis-à-vis FY18 mainly on account of increase in raw material expenses as a % of total sales with the inability of the company to pass through the increased expenses to customers completely (as price correction happened within the same quarter most of times) coupled with increase in expenses pertaining to bad debts written off during the year. Further, the company also offered discounts to its customers which impacted the margins. The PBILDT margins deteriorated by 319 bps to 8.87% in FY19. In line with the PBILDT margins; the PAT margin of the company also deteriorated by 199 bps to 3.10% in FY19.

Marginal deterioration of debt coverage indicators

The debt coverage indicators viz. interest coverage (2.57x in FY19 as against 3.19x in FY18) and Total Debt/GCA (6.38x in FY19 as against 4.08x in FY18) witnessed deterioration at the back of decreased PBILDT and GCA levels during the year coupled with increase in the total debt of the company. However, the same remained at satisfactory levels.

Risk associated with volatility in raw material prices

The raw material cost is the major cost component and accounted for 70-75% of the total cost of sales in the last four years ended FY19. 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 company enters into monthly contracts, spot contracts and project specific contracts for raw material (hot rolled steel) procurement. The prices of hot rolled steel strips are volatile in nature resulting in susceptibility of profitability to adverse movement of input prices.

Capital intensive nature of business with persistent debt funded capex

Over the last 2-3 years, the company has been undertaking capex for expansion of its product portfolio. The company undertook expansion capex in different business verticals and introduced new high margin products, with a total capex of about Rs.258.0 crore during FY19 at a consolidated level. The improvement in the margins from the same is expected to be seen gradually in the years ahead. The company has added products like galvanizing, SS tubes, module manufacturing, entering into passenger vehicles etc. among others. For FY20 and FY21 also, the company has estimated a capex plan of Rs.60.00 crore and Rs. 95 crore respectively.

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 Indicator- Adequate:

The liquidity position of the company is adequate. The company has been generating sufficient cash accruals (Rs.99.25 crore during FY19) vis-à-vis the repayment obligations. The company operates in a working capital intensive industry and given the substantial growth in scale of operations, the utilization of fund based limit is on the moderate side with average utilization for the last 12 months ended January 2020 around 71%. The operating cycle of the company has also remained stable over the years. Besides, the company has free cash & bank balance/liquid market investments of Rs.67.27 crore as on March 31, 2019 and Rs.58.64 crore as on September 30, 2019.

Analytical approach: Consolidated

CARE in its analysis has considered the consolidated business and financial risk profiles of Pennar Industries Ltd. and its subsidiary Pennar Global INC and Enertech Pennar Defense and Enginseering Systems Private Limited, together referred to as Pennar group, as the entity is linked through a parent-subsidiary relationship and collectively have management, business & financial linkages. Post completion of amalgamation, the business currently held in the two subsidiaries (Pennar Engineered Building Systems Limited & Pennar Enviro Limited) stand transferred in standalone PIL.

Subsidiary

- Pennar Global INC
- Enertech Pennar Defense and Engineering Systems Private Limited
- Pennar GmbH, Germany (December 04, 2019)

Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[Rating Methodology: Factoring Linkages in Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company

Pennar Industries Limited (PIL) incorporated in 1975 was promoted by Mr. Nrupendra 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, Precision Tubes, Railway

wagons / Coaches, 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's products have significant presence in sectors like Infrastructure, Automobiles, Power, General Engineering, Building & Construction, Refineries, White Goods, Railways, Solar etc. PIL is particularly focused on the value-added engineered products segment and the business is divided into four major verticals; Steel Products (cold rolled steel strips, building products and formed sections), Systems and Projects (Railways and Solar module mounting systems (MMS) components), Industrial Components (general Engineering and Automotive components) and Tubes (Electric Resistant Welded, and Cold Drawn Tubes).
Subsequent to the NCLT order pronounced on May 08, 2019, the erstwhile subsidiaries namely Pennar Engineered Building Systems Limited and Pennar Enviro Limited have been amalgamated with PIL.
During FY19, the company has received CIDC Vishwakarma Award (Best Professionally managed company), HMTV Award (Best manufacturing company), Global Logistics Excellence Award (Best Pre-Engineering Design) organized by CNBC.

Brief Financials – Consolidated (Rs. Crore) –	FY18 (A)	FY19 (A)
Total operating income	1776.23	2149.25
PBILDT	214.26	190.71
PAT	90.49	66.66
Overall gearing (times)	0.88	0.97
Interest coverage (times)	3.19	2.57

A: Audited

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*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	200.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	December 2021	142.72	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	245.50	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	80.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	134.00	CARE A; Stable
Fund-based - LT-Term Loan*	-	-	-	110.00	CARE A; Stable
Non-fund-based - ST-Letter of credit	-	-	-	45.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	290.00	CARE A1
Non-fund-based - ST-Forward Contract	-	-	-	0.50	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	22.50	CARE A1
Fund-based - ST-Bills discounting/ Bills	-	-	-	25.00	CARE A1

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
purchasing					

*proposed

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	200.00	CARE A; Stable	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)	1)CARE A; Positive (13-Feb-19) 2)CARE A; Positive (31-Dec-18)	1)CARE A; Positive (08-Jan-18)	1)CARE A; Positive (21-Feb-17) 2)CARE A; Positive (11-Jan-17)
2.	Fund-based - LT-Term Loan	LT	142.72	CARE A; Stable	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)	1)CARE A; Positive (13-Feb-19) 2)CARE A; Positive (31-Dec-18)	1)CARE A; Positive (08-Jan-18)	1)CARE A; Positive (21-Feb-17) 2)CARE A; Positive (11-Jan-17)
3.	Non-fund-based - ST-BG/LC	ST	245.50	CARE A1	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)	1)CARE A1 (13-Feb-19) 2)CARE A1 (31-Dec-18)	1)CARE A1 (08-Jan-18)	1)CARE A1 (21-Feb-17) 2)CARE A1 (11-Jan-17)
4.	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)	1)CARE A1 (13-Feb-19) 2)CARE A1 (31-Dec-18)	1)CARE A1 (08-Jan-18)	1)CARE A1 (21-Feb-17) 2)CARE A1 (11-Jan-17)
5.	Fund-based - LT-Cash Credit	LT	134.00	CARE A; Stable	1)CARE A; Stable (12-Mar-20) 2)CARE A; Stable (21-Aug-19)	-	-	-
6.	Fund-based - LT-Term Loan	LT	110.00	CARE A; Stable	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 A1	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)	-	-	-
8.	Non-fund-based - ST-BG/LC	ST	290.00	CARE A1	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 A1	1)CARE A1 (12-Mar-20) 2)CARE A1 (21-Aug-19)	-	-	-
10.	Non-fund-based - ST-BG/LC	ST	22.50	CARE A1	1)CARE A1 (12-Mar-20) 2)CARE A; Stable / CARE A1 (21-Aug-19)	-	-	-
11.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	25.00	CARE A1	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Ms. Radhika Ramabhadran
Group Head Contact no. - +91-40-40102030
Group Head Email ID - radhika.ramabhadran@careratings.com

Relationship Contact
Name: Ramesh Bob
Contact no. : +91 90520 00521
Email ID: ramesh.bob@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at** www.careratings.com