

Pennar Engineered Building Systems Limited

January 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	55.00	CARE A (SO); Positive [Single A (Structured Obligation); Outlook – Positive]	Reaffirmed
Short-term Bank Facilities	0.07	CARE A1 (SO) [A One (Structured Obligation)]	Reaffirmed
Long-term/Short-term Bank Facilities	135.00	CARE A (SO); Positive/CARE A1 (SO) [Single A (Structured Obligation); Outlook – Positive / A One (Structured Obligation)]	Reaffirmed
Long-term/Short-term Bank Facilities	35.00	CARE A (SO); Positive/CARE A1 (SO) [Single A (Structured Obligation); Outlook – Positive / A One (Structured Obligation)]	Final Rating
Facilities	225.07 (Rupees Two hundred Twenty Five crore and Seven lakh only)		

Details of facilities in Annexure-I

The above ratings are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Pennar Industries Limited (rated CARE A; Positive / CARE A1) for the bank facilities of Pennar Engineered Building Systems Private Limited (PEBSL).

The ratings assigned to the bank facilities of Pennar Industries Limited (PIL) continue to draw strength from the experienced promoter group and management team, long track record of operations, wide product range with presence across diversified business segments, reputed and diversified client base, satisfactory operational performance, comfortable debt coverage indicators and liquidity position. The ratings also take into account improvement in revenue and profitability during FY16 (refers to the period April 1 to March 31) with increased presence in the high margin business segment, reduced concentration on railways for business and satisfactory order book position for the Pre-Engineered building segment. The ratings, however, continue to be constrained by profitability susceptible to volatility in raw material price, limited pricing flexibility, risk associated with the capital expenditure plans and competition from other players. The ability of the company to continue to diversify the revenue profile in the value-added segments thereby improving the profitability without impacting the capital structure and manage raw material price volatility are the key rating sensitivities.

The outlook is 'Positive' with PIL strategically diversifying its product portfolio with investments in high margin segments and expected introduction of new range of products resulting in growth in scale and improvement in key financial parameters. The outlook may be revised to 'Stable' if the company is unable to achieve the growth as envisaged.

Incorporated in 1975, PIL has expanded its business profile with acquisition of other related companies, setting up new plants, expansion of existing units and diversifying into value added products in the engineering & infrastructure segment. Furthermore, it has significantly increased its presence in the pre-engineered business segment and water & environment infrastructure business through its subsidiaries; Pennar Engineered Building System Limited (PEBSL) and Pennar Enviro

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Limited (PEL), respectively. During FY16, PIL acquired a new subsidiary Pennar Renewables Private Limited (erstwhile known as New Era Enviro Ventures (Karimnagar) Private Limited) which is engaged in the commercial generation of solar power (23 MW) in Telengana.

PIL has a diversified product portfolio having wide industrial use ranging from automobile, white goods, general engineering, domestic appliances, buildings and construction and railways. PIL has strategically diversified its product portfolio within each segment over the last 2-3 years. The revenue profile of PIL is thus diversified with contribution from the four major business units spread out (Steel Products – 39.01%, Systems & Projects – 33.66%, Tube – 16.43% and Industrial Components – 7.04% Scrap Sales – 3.85% during FY16).

The capacity utilization of PIL's plant has remained at a satisfactory level over the years. The capacity utilization for cold rolled formed sections (CRFS) has witnessed an improving trend over the last three years mainly at the back of improved demand from the solar power industry. The capacity utilization for cold rolled steel strips (CRSS); however, has been declining over the last two financial years mainly at the back of subdued overall industry scenario as the segment is directly linked to the overall growth in the infrastructure and process engineering sectors in India.

PIL is an established player in the industry and the client profile comprises some of the reputed names in the industry. As the products are slightly technical in nature, the company secures designs, drawings from clients and based on discussion with them; the product is customized. Hence the risk of switching to some other player is also low. The client profile for the various divisions includes names, viz. Integral Coach Factory, Modern Coach Factory, Mahindra & Mahindra Ltd., TVS Motor Company Ltd., Reliance Industries Ltd., My Home group, Ultratech Cement, etc.

The raw material cost is the major cost component and accounted for 75-82% of the total cost of sales in the last three years ended FY16. The prices of hot rolled steel strips, the major raw material, are volatile in nature resulting in susceptibility of profitability to adverse movement of input prices. The company enters into monthly contracts, spot contracts and project specific contracts for raw material (hot rolled steel) procurement. However, PIL procures raw material majorly from JSW Steel Ltd with about 65-70% of total raw material consumption requirement being met by the latter.

On a consolidated basis, PIL registered a stable revenue position in FY16 with marginal y-o-y growth of 3.1% in total operating income during FY16 (to Rs.1,308.98 crore). While the company registered flat growth in revenue, the profitability improved significantly backed by the value additive products introduced across the business verticals and increased contribution from PEBS segment. PBILDT level and margin improved significantly by 24.87% and 199 basis points (to 11.41%), respectively, in FY16. Increased PBILDT resulted in improvement in PAT level and margin by 35.03% and 102 bps (to 4.45%), respectively, in FY16.

The capital structure remained comfortable as on March 31, 2016, with both debt-equity and overall gearing ratio below unity as on the said date. The overall gearing remained at a similar level but weakened marginally from 0.49x as on March 31, 2015, to 0.51x as on March 31, 2016 and 0.66x as on September 30, 2016. This was mainly on account of increase in total debt due to additional term loan and working capital borrowings availed by PIL and PEBSL, respectively, during the year to support the expanding scale of operations and additional debt availed under PRPL to set up the solar power plant.

The company has a satisfactory operating cycle despite its operation in working capital intensive business. The operating cycle is between 2 and 3 months on an average and stood at 63 days in FY16 (improved from 78 days in FY15) backed by extended credit terms availed from suppliers. The liquidity profile has also been quite comfortable and with adequate gross cash accrual generation, low debt repayment obligation and satisfactory operating cycle, the dependence on external debt has been low. This apart, PIL (consolidated) had free cash and bank balance and liquid market investments of Rs.90.48 crore as on March 31, 2016. The working capital requirement continues to remain moderate with average utilization of fund-based limits being 77% (standalone) in the 12 months ended November 30, 2016.

Analytical Approach – Consolidated

CARE in its analysis has considered the consolidated business and financial risk profiles of Pennar Industries Ltd. and its subsidiaries; Pennar Engineered Building Systems Ltd. (PEBSL), Pennar Enviro Limited (PEL) and Pennar Renewables Private Ltd. (PRPL), together referred to as Pennar group, as the entities collectively have management, business & financial linkages.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

Company Background

Pennar Industries Limited (PIL), incorporated in 1975 is engaged in manufacturing of cold rolled steel strips (installed capacity of 1,10,000 MT) and engineered steel products, majorly cold rolled formed sections (installed capacity of 1,44,200 MT) at its manufacturing facilities spread across six places in South India. 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).

Pennar Engineered Building Systems Ltd (PEBSL), promoted by Pennar Group, was incorporated in 2008 in Hyderabad, Telangana, to diversify the group's business into production of Pre-Engineered Buildings (PEB). PEBSL commenced commercial operation in December 2009 at its manufacturing facility located at Hyderabad, Telangana and is currently engaged in designing, fabricating and installing pre-engineered steel buildings and solar module mounting structures. The business is divided into four major verticals; pre-engineered buildings, solar module mounting systems, structural steel fabrication and engineering services. During FY16, PEBSL made its Initial Public Offering (IPO) and the shares of the company were listed on BSE Limited (BSE) and National Stock Exchange of India Ltd (NSE) on September 10, 2015.

On a consolidated basis, during FY16 (refers to the period April 1 to March 31), PIL has reported a PAT of Rs.58.24 crore on a total operating income of Rs.1,308.98 crore as against a PAT of Rs.43.13 crore on a total operating income of Rs.1,269.64 crore in FY15. During H1FY17 (refers to the period April 1 to September 30), the company has reported a PAT of Rs.23.24 crore on a total operating income of Rs.689.41 crore.

During FY16 (refers to the period April 1 to March 31), PEBSL has reported a PAT of Rs.30.16 crore on a total operating income of Rs.447.02 crore as against a PAT of Rs.21.91 crore on a total operating income of Rs.450.13 crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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	-	-	-	55.00	CARE A (SO); Positive
Non-fund-based - LT/ ST-BG/LC	-	-	-	40.00	CARE A (SO); Positive / CARE A1 (SO)
Non-fund-based - LT/ ST-BG/LC	-	-	-	35.00	CARE A (SO); Positive / CARE A1 (SO)
Non-fund-based - ST-Forward Contract	-	-	-	0.07	CARE A1 (SO)
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	CARE A (SO); Positive / CARE A1 (SO)
Non-fund-based - ST-Letter of credit	-	-	-	25.00	CARE A1 (SO)
Non-fund-based - LT/ ST-BG/LC	-	-	-	10.00	CARE A (SO); Positive / CARE A1 (SO)
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	40.00	CARE A (SO); Positive / CARE A1 (SO)

Annexure 2**Rating History for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Chronology of Rating history for past three years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	0.00	Withdrawn		1)Withdrawn (March 03, 2015) 2)CARE A (SO) (January 29, 2015) 3)CARE A (SO) (June 13, 2014)	1)CARE A (SO) (January 27, 2014) 2)CARE A (SO) (April 03, 2013)
2.	Fund-based - LT-Cash Credit	LT	55.00	CARE A (SO); Positive	1)CARE A (SO) (December 11, 2015)	1)CARE A (SO) (March 03, 2015) 2)CARE A (SO) (January 29, 2015) 3)CARE A (SO) (June 13, 2014)	1)CARE A (SO) (January 27, 2014) 2)CARE A (SO) (April 03, 2013)
3.	Fund-based - ST-Standby Line of Credit	ST	0.00	Withdrawn			1)Withdrawn (April 03, 2013)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Chronology of Rating history for past three years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	40.00	CARE A (SO); Positive / CARE A1 (SO)	1)CARE A1 (SO) (December 11, 2015)	1)CARE A1 (SO) (March 03, 2015) 2)CARE A1 (SO) (January 29, 2015) 3)CARE A1 (SO) (June 13, 2014)	1)CARE A1 (SO) (January 27, 2014) 2)CARE A1 (SO) (April 03, 2013)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	35.00	CARE A (SO); Positive / CARE A1 (SO)	1)CARE A1 (SO) (December 11, 2015)	1)CARE A1 (SO) (March 03, 2015) 2)CARE A1 (SO) (January 29, 2015) 3)CARE A1 (SO) (June 13, 2014)	1)CARE A1 (SO) (January 27, 2014) 2)CARE A1 (SO) (April 03, 2013)
6.	Non-fund-based - ST-Forward Contract	ST	0.07	CARE A1 (SO)	1)CARE A1 (SO) (December 11, 2015)	1)CARE A1 (SO) (March 03, 2015) 2)CARE A1 (SO) (January 29, 2015) 3)CARE A1 (SO) (June 13, 2014)	1)CARE A1 (SO) (January 27, 2014) 2)CARE A1 (SO) (April 03, 2013)
7.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	CARE A (SO); Positive / CARE A1 (SO)	1)CARE A (SO) / CARE A1 (SO) (December 11, 2015)	1)CARE A (SO) / CARE A1 (SO) (March 03, 2015)	
8.	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A1 (SO)	1)Provisional CARE A1 (SO) (December 11, 2015)	1)CARE A1 (SO) (In Principle) (March 03, 2015)	
9.	Non-fund-based - LT/ ST-BG/LC	LT/ST	10.00	CARE A (SO); Positive / CARE A1 (SO)	1)Provisional CARE A (SO) / CARE A1 (SO) (December 11, 2015)	1)CARE A (SO) (In Principle) / CARE A1 (SO) (In Principle) (March 03, 2015)	
10.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	40.00	CARE A (SO); Positive / CARE A1 (SO)	1)CARE A (SO) / CARE A1 (SO) (December 11, 2015)	1)CARE A (SO) / CARE A1 (SO) (March 03, 2015)	

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