

Pennar Engineered Building Systems Limited

March 28, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
i. Long-term Bank Facilities @	75.00 (enhanced from 55.00)	CARE A (SO); Positive [Single A (Structured Obligation); Outlook: Positive]	Reaffirmed
ii. Short-term Bank Facilities @	0.50 (enhanced from 0.07)	CARE A1 (SO) [A One (Structured Obligation)]	Reaffirmed
iii. Long-term/Short-term Bank Facilities @@	230.00 (enhanced from 170.00)	CARE A (SO); Positive/CARE A1 (SO) [Single A (Structured Obligation); Outlook: Positive / A One (Structured Obligation)]	Reaffirmed
iv. Long-term/Short-term Bank Facilities @@	20.00	Provisional CARE A (SO); Positive/ CARE A1 (SO) [Provisional Single A (Structured Obligation); Outlook: Positive / A One (Structured Obligation)]	Assigned
Total	325.50 (Rupees Three Hundred Twenty Five crore and Fifty lakh only)		
v. Proposed Commercial Paper @@	25.00 (Rupees Twenty Five crore only)	Provisional CARE A1 (SO) [Provisional A One (Structured Obligation)]	Assigned

@backed by unconditional and irrevocable corporate guarantee provided by Pennar Industries Limited (rated CARE A; Positive / CARE A1)

@@ proposed to be backed by unconditional and irrevocable corporate guarantee provided by Pennar Industries Limited
 Details of instruments/facilities in Annexure-I

The ratings of facilities i, ii and iii stated above 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 of facilities/instrument iv and v are based on the credit enhancement in the form of proposed unconditional and irrevocable corporate guarantee to be extended by Pennar Industries Limited and the final rating is subject to execution of guarantee documents.

Detailed Rationale & Key Rating Drivers

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) and 9MFY17 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.

Outlook: Positive

The 'Positive' outlook reflects the PIL's strategic diversification in 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.

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

Detailed description of the key rating drivers

Key Rating Strengths

Strong 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, it has significantly increased its presence in the pre-engineered business segment, water & environment infrastructure business and solar power generation through its subsidiaries; Pennar Engineered Building Systems Limited (PEBSL), Pennar Enviro Limited (PEL) and Pennar Renewables Private Limited (PRPL), respectively.

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), who has more than 35 years of experience 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: PIL has a diversified product portfolio having wide industrial use ranging from automobile, white goods, general engineering, domestic appliances, buildings and construction and railways. The revenue profile of PIL is thus diversified with contributions from four major business units viz. Steel Products, Systems & Projects, Tubes and Industrial Components.

Satisfactory operational performance: 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 whereas the capacity utilization for cold rolled steel strips (CRSS) has been declining over the last two financial years mainly at the back of subdued overall industry scenario.

Satisfactory financial performance and comfortable capital structure: On a consolidated basis, PIL registered a stable revenue position in FY16 with marginal y-o-y growth of 3.1% in the total operating income during FY16. PBILDT level and margin, however, improved significantly in FY16 backed by the value additive products introduced across the business verticals and increased contribution from PEBS segment. In line with higher PBILDT, the PAT level and margin also improved during the year. 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.

Comfortable operating cycle and liquidity position: PIL has a satisfactory operating cycle despite its operation in working capital intensive business. Furthermore, the liquidity profile has also been comfortable and with adequate gross cash accrual generation, low debt repayment obligation and satisfactory operating cycle, the dependence on external debt has been low.

Key Rating Weaknesses

Risk associated with volatility in raw material prices: 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 input prices being highly volatile which subjects the profitability to risk associated with adverse movement of prices.

High competition from major players: The engineering segment is a highly competitive and low margin business with competition from large integrated steel manufacturers.

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 are linked through a parent-subsidary relationship and 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](#)

About the Company

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.

Pennar group has a presence in diverse industries with manufacturing facilities for fuel additives, water treatment chemicals and water treatment projects through its subsidiary; PEL and is involved in construction of Pre-Engineered

industrial building through PEBSL. This apart, the group has also commenced operations of solar power plant of capacity 23 MW at Karimnagar and Medak districts of Telangana from April 01, 2016, under PRPL.

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.

About Guarantor

Pennar Industries Limited (PIL), incorporated in 1975, is engaged in manufacturing of cold rolled steel strips (installed capacity of 110,000 MT) and engineered steel products, majorly cold rolled formed sections (installed capacity of 144,200 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).

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 9MFY17 (refers to the period April 1 to December 31), the company has reported a PAT of Rs.37.70 crore on a total operating income of Rs.1084.10 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly 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

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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	-	-	-	75.00	CARE A (SO); Positive
Non-fund-based - LT/ ST-BG/LC	-	-	-	205.00	CARE A (SO); Positive / CARE A1 (SO)
Non-fund-based - ST-Forward Contract	-	-	-	0.50	CARE A1 (SO)
Non-fund-based - LT/ ST-BG/LC	-	-	-	25.00	CARE A (SO); Positive / CARE A1 (SO)
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	Provisional CARE A (SO); Positive / CARE A1 (SO)
Commercial Paper	-	-	-	25.00	Provisional CARE A1 (SO)

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 2016-2017	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	-	-	-	-	1)Withdrawn (03-Mar-15) 2)CARE A (SO) (29-Jan-15) 3)CARE A (SO) (13-Jun-14)	1)CARE A (SO) (27-Jan-14) 2)CARE A (SO) (03-Apr-13)
2.	Fund-based - LT-Cash Credit	LT	75.00	CARE A (SO); Positive	1)CARE A (SO); Positive (11-Jan-17)	1)CARE A (SO) (11-Dec-15)	1)CARE A (SO) (03-Mar-15) 2)CARE A (SO) (29-Jan-15) 3)CARE A (SO) (13-Jun-14)	1)CARE A (SO) (27-Jan-14) 2)CARE A (SO) (03-Apr-13)
3.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)Withdrawn (03-Apr-13)
4.	Non-fund-based - LT/ ST-BG/LC	-	-	-	1)CARE A (SO); Positive / CARE A1 (SO) (11-Jan-17)	1)CARE A1 (SO) (11-Dec-15)	1)CARE A1 (SO) (03-Mar-15) 2)CARE A1 (SO) (29-Jan-15) 3)CARE A1 (SO) (13-Jun-14)	1)CARE A1 (SO) (27-Jan-14) 2)CARE A1 (SO) (03-Apr-13)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	205.00	CARE A (SO); Positive / CARE A1 (SO)	1)CARE A (SO); Positive / CARE A1 (SO) (11-Jan-17)	1)CARE A1 (SO) (11-Dec-15)	1)CARE A1 (SO) (03-Mar-15) 2)CARE A1 (SO) (29-Jan-15) 3)CARE A1 (SO) (13-Jun-14)	1)CARE A1 (SO) (27-Jan-14) 2)CARE A1 (SO) (03-Apr-13)
6.	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A1 (SO)	1)CARE A1 (SO)	1)CARE A1 (SO) (11-Dec-15)	1)CARE A1 (SO) (03-Mar-15)	1)CARE A1 (SO) (27-Jan-14)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
					(11-Jan-17)		2)CARE A1 (SO) (29-Jan-15) 3)CARE A1 (SO) (13-Jun-14)	2)CARE A1 (SO) (03-Apr-13)
7.	Non-fund-based - LT/ ST-BG/LC	-	-	-	1)CARE A (SO); Positive / CARE A1 (SO) (11-Jan-17)	1)CARE A (SO) / CARE A1 (SO) (11-Dec-15)	1)CARE A (SO) / CARE A1 (SO) (03-Mar-15)	-
8.	Non-fund-based - LT/ ST-BG/LC	LT/ST	25.00	CARE A (SO); Positive / CARE A1 (SO)	1)CARE A1 (SO) (11-Jan-17)	1)Provisional CARE A1 (SO) (11-Dec-15)	1)CARE A1 (SO) (In Principle) (03-Mar-15)	-
9.	Non-fund-based - LT/ ST-BG/LC	-	-	-	1)CARE A (SO); Positive / CARE A1 (SO) (11-Jan-17)	1)Provisional CARE A (SO) / CARE A1 (SO) (11-Dec-15)	1)CARE A (SO) (In Principle) / CARE A1 (SO) (In Principle) (03-Mar-15)	-
10.	Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1)CARE A (SO); Positive / CARE A1 (SO) (11-Jan-17)	1)CARE A (SO) / CARE A1 (SO) (11-Dec-15)	1)CARE A (SO) / CARE A1 (SO) (03-Mar-15)	-
11.	Commercial Paper	ST	25.00	Provisional CARE A1 (SO)	-	-	-	-
12.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	Provisional CARE A (SO); Positive / CARE A1 (SO)	-	-	-	-

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