Pennar Industries Limited

January 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	230.00 (enhanced from 191.18)	**CARE A; Positive (Single A; Outlook: Positive)**	Reaffirmed
Short term Bank Facilities	175.00 (enhanced from 150.00)	**CARE A1 (A One)**	Reaffirmed
Total	**405.00 (Rupees Four Hundred Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the 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, reputed and diversified client base, comfortable capital structure and liquidity position. The ratings also take into account growth in revenue and cash accruals during FY17 (refers to the period April 1 to March 31) & H1FY18. The ratings are, however, constrained by flat growth in profit level with decline in profit margin during FY17, increased dependence on working capital borrowings (at a consolidated level) which along with persistent debt funded capex has resulted in weakening of debt coverage parameters and return ratios, risks associated with volatility in raw material price, limited pricing flexibility and competition from other players. The ability of the company to continue to increase the contribution of the value-added segments while improving the profitability and financial position and manage raw material price volatility are the key rating sensitivities.

Outlook: Positive

The 'Positive' outlook reflects the PIL's continuous endeavor to diversify its product portfolio with investments in high margin segments and expected introduction of new range of products resulting in expected growth in scale, financial position and other key financial parameters.

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, 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. During H1FY18, the company also set up a new manufacturing unit at Velchal, Telangana, to primarily focus on forward integration in the Steel products business vertical.

Growth in revenue and cash accrual during FY17 and H1FY18: PIL has been reporting a satisfactory operational performance over the last three years. The company reported a y-o-y revenue growth of 18.2% in total operating income during FY17 over FY16 at consolidated level. This was backed by increased orders from systems & projects business vertical and high rise buildings business segment during the year. The improvement in revenue continued during H1FY18 wherein the company registered a total operating income and PAT growth of about 18% and 14% respectively on y-o-y basis.

Comfortable financial and liquidity position: The capital structure remained comfortable as on March 31, 2017 with both debt-equity and overall gearing ratio below unity as on the said date. The total debt, however, has been continuously increasing over the years on account of regular debt funded capex being undertaken by the company as well as higher dependence on working capital borrowings at a consolidated level.

The liquidity profile has also been comfortable backed by adequate cash generation and free cash/liquid funds maintained. The said funds, however, are not expected to be continued at the same level given the investment plans envisaged.

Key Rating Weaknesses

Moderation in profitability and coverage indicators: PIL, although witnessed a strong revenue growth, the same could not percolate down to the profit level in FY17. The profit level remained flat and the margins witnessed a marginal deterioration. The PBILDT margin declined by 37 basis points (to 11.04%) in FY17 on account of higher input prices (by about 18%) mainly at its major subsidiary, PEBSL level, which the company could not pass on to maintain the market share. Subsequently, PAT margin declined by 67 basis points (to 3.78%) during the year. This apart, the the total debt has witnessed an increasing trend which in turn has resulted in moderation in debt coverage parameters and return ratios in FY17. Thus, the ability of the company to optimize the debt levels remains important from credit perspective.

Risk associated with volatility in raw material prices: The raw material cost is the major cost component and accounted for 75-80% of the total cost of sales in the last three years ended FY17. 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 financials

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-subsidiary 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 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).

The company has announced merger of its subsidiary; PEBSL with itself and the same is under process. Further, the company has entered into agreement with Hyderabad based Greenko group to sell its entire stake in other subsidiary; PRPL. The transaction is expected to be completed by end of fiscal FY18. Hence, in the interim period, the company continues to extend corporate guarantee to the bank facilities of the said subsidiaries.

Brief Financials (Rs. crore) – PIL Consolidated	FY16 (A)	FY17 (A)
Total operating income	1308.98	1547.36
PBILDT	149.34	170.82
PAT	58.24	58.54
Overall gearing (times)	0.91	0.93
Interest coverage (times)	4.01	2.87

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:
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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	-	-	-	140.00	CARE A; Positive
Fund-based - LT-Term Loan	-	-	March 2023	90.00	CARE A; Positive
Non-fund-based - ST-BG/LC	-	-	-	95.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	80.00	CARE A1

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	140.00	CARE A; Positive	-	1)CARE A; Positive (21-Feb-17) 2)CARE A; Positive (11-Jan-17)	1)CARE A (08-Dec-15)	1)CARE A (29-Jan-15)
2.	Fund-based - LT-Term Loan	LT	90.00	CARE A; Positive	-	1)CARE A; Positive (21-Feb-17) 2)CARE A; Positive (11-Jan-17)	1)CARE A (08-Dec-15)	1)CARE A (29-Jan-15)
3.	Non-fund-based - ST-BG/LC	ST	95.00	CARE A1	-	1)CARE A1 (21-Feb-17) 2)CARE A1 (11-Jan-17)	1)CARE A1 (08-Dec-15)	1)CARE A1 (29-Jan-15)
4.	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1	-	1)CARE A1 (21-Feb-17) 2)CARE A1 (11-Jan-17)	1)CARE A1 (08-Dec-15)	1)CARE A1 (29-Jan-15)

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