

*In our turnaround lies  
the wings of growth*



## The *G*rowth Period

Pennar began its industrial journey in 1988 by setting up a Cold Rolled Steel complex on a 25 acre site at Isnapur near Hyderabad with a capacity of 30,000 tonnes per annum. In the very first year of operation, Pennar achieved cash profits and followed it up with profits and dividend in the second year. Buoyed by continuous growth in turnover and profitability year-on-year, Pennar expanded its capacity to 50,000 metric tonnes.

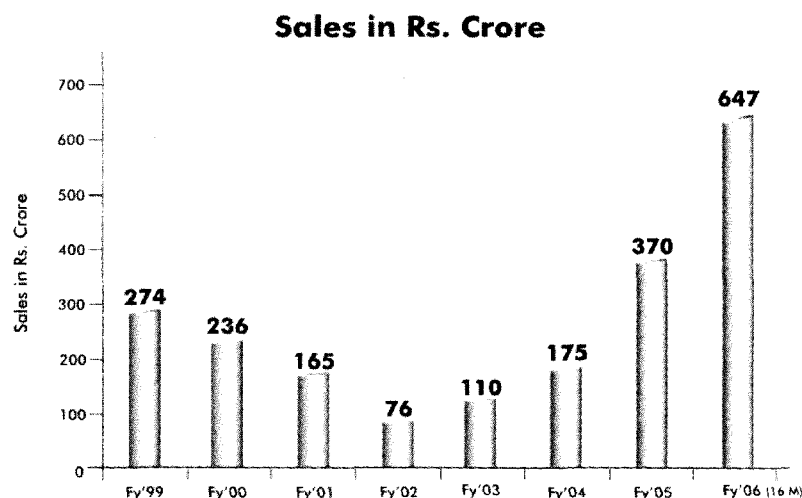
Liberalization and globalization of the Indian economy unleashed competitive forces. Pennar felt that it was desirable to have a higher capacity to achieve economies of scale and also a diversified product mix. Consequently, it merged Nagarjuna Steel plant located on a 45 acre site at Patancheru near Hyderabad with itself in 1997. This resulted in increase of production capacity to 142,000 TPA and a diversified product mix consisting of cold rolled steel, cold formed profiles and pressed components.

## The Downturn

Though the merger of Nagarjuna was a sound business decision, it coincided with the recession in the Indian economy and the steel sector in particular from 1998 to 2002. The competition in commodity cold rolled steel intensified with increase in domestic capacity and due to imports. The finances of the company were also stressed. The Company's operations and margins were under pressure, resulting in the sales turnover decreasing to Rs. 76 crores in FY'02 from a high of Rs. 320 crores achieved in FY'98.

## The Turnaround

In a span of just four years from 2002 to 2006, Pennar achieved a remarkable turnaround with profits in five successive quarters starting March 2005. Sales zoomed to Rs.647 crores in the 16-month period ending 2006 (Annualised amount Rs. 485 Crores). The gross profit (EBIDT) for the period was Rs. 50 crores and the operating profit was





Rs. 26 crores. After accounting for remission of loan due to financial restructuring amounting to Rs. 23 crores, the profit before taxes (PBT) was Rs. 49 crores. The company earned a net profit (PAT) of Rs. 41.6 crores resulting in annualised Earning per Share (Rs. 5/-) of Rs. 3.74.

## The Turnaround Strategy

A dedicated and committed management team crafted the turnaround by adopting a three-pronged strategy of business restructuring, productivity improvements and financial restructuring.

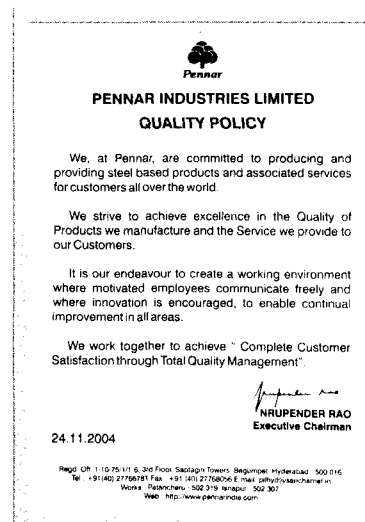
## Business Restructuring

- a. To reduce the risk in the business, Pennar shifted focus from commodity cold rolled steel to value-added steel products. The proportion of value-added products to total sales was improved from 20% to 50%.
- b. New business segments were developed including Electrostatic Precipitators (ESP), Pre-Engineered Building Systems, Tube products, Road Safety Systems, Railway Coach Profiles.
- c. Made a beginning in exports as Pennar was selected as a global source for F.L.Smith, Denmark and Hammon Research & Cotrell of Belgium for the steel profiles used in Electro Static Precipitators.
- d. Set up fabrication facilities for supplies to Industrial buildings, ESP's and seed processing plants.
- e. Special efforts made to develop manufacture of components for the Auto and White Goods Sectors.
- f. Focused marketing efforts - strong relationships were forged with prestigious customers like Tata Motors, Ashok Leyland, ICF, BEML, L&T, Thermax, ABB, and ACC who are giving continuous business to Pennar.



## Productivity Improvements

- a. Improvement in manufacturing operations resulted in productivity increases across many of the areas. Yield improved from 87% to 92%. The power consumption was reduced resulting in energy savings. Machine utilization was improved significantly.
- b. Improved quality with ISO 9001:2000 certifications for the rolling forming and components divisions.



- c. Post-merger, manpower was rationalized and productivity was improved. Training imparted in various technical and operational areas. Manpower motivation and commitment was always high and IIM, Ahmedabad has made a Case Study of the company's restructuring with the full cooperation of the workforce.
- d. Improved management of inventories and receivables resulted in better productivity of working capital.

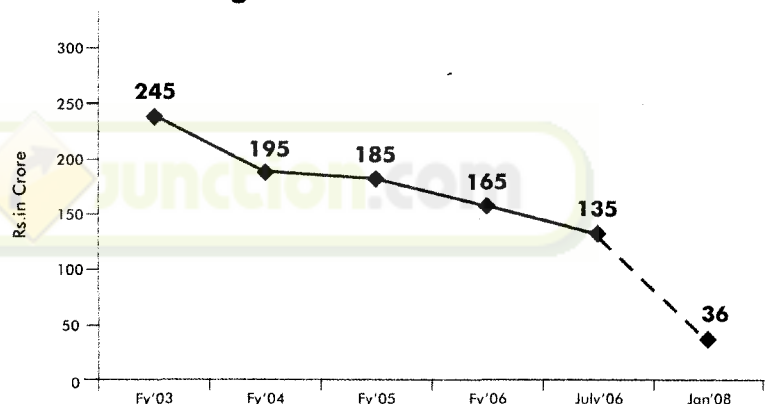
## Financial Restructuring

In early 2004, the Corporate Debt Restructuring Forum (CDR) approved a restructuring scheme which resulted in reduction of interest rates and also reduced debt through a one-time settlement with some banks. Induction of additional equity further reduced the leverage.

Even though the Company successfully implemented the CDR Scheme, it still had large amount of long-term debt and the solution lay in replacing it with a combination of equity and debt. Accordingly, in July 2006, the company restructured the debt for a second time with the induction

of foreign investors who brought in Rs. 122.4 crores. This amount was used to retire the long-term debt and for capital expenditure required for the new plant near Chennai.

**Long Term Debt in Rs. Crore**



## Environment

The company conforms to all the norms with regard to water and air pollution. It has also put up a waste water recycling plant to conserve water resources.

In addition to maintaining excellent employee relations and industrial harmony, the company has given a helping hand to the neighboring village of Bandalaguda in the setting up of a primary school and a place of worship.

## Expansion / Diversification

Even during the revival period, Pennar was open to new opportunities and it acquired the Press Metal profiles division of the Tube Investments Group (TI). This plant located at Tarapur near Bombay was helpful in sourcing supplies to Tata Motors and Eicher Motors.

In order to service the growing auto sector and the Rail Coach Factory based in Chennai, the company's fourth facility is being set up on a 35 acre site near Chennai. The new plant will produce value-added profiles and components for the automobile and railway sectors.

## Outlook for the Future

With the fundamentals of the economy remaining strong and the requirement for materials in the Auto industry and building industries expected to increase, the outlook for the demand for products of the company is very encouraging.

In view of the financial restructuring undertaken by the company and with the strategic association of foreign investors, the company intends to diversify further in the domestic markets while also forging international linkages to take Pennar beyond the Indian shores. The overall strategy to increase turnover as well as profitability is as follows:

- a) Increase the proportion of value added niche steel products and reduce the quantum of commodity cold rolled steel
- b) Manufacture of auto components
- c) Increase the quantum of exports for which a beginning has been done
- d) Inorganic growth through acquisitions of companies in allied fields
- e) Focus on pre-engineered steel buildings which have high potential due to large scale investments in infrastructure





## PENNAR INDUSTRIES LIMITED

### BOARD OF DIRECTORS

Shri Nrupender Rao (Executive Chairman)  
Shri Ravi Chachra  
Shri Tarun Gandhi  
Shri C. Rangamani  
Shri A. Krishna Rao  
Shri P. Bhaskara Rao  
Shri Vijay Chandra Puljal  
Shri Ch. Anantha Reddy (Executive Director)

### COMPANY SECRETARY

Shri P.V. Varaprasad

### AUDITORS

M/s Rambabu & Co.,  
Chartered Accountants,  
31, Pancom Chambers,  
6-3-1090/1/A, Rajbhavan Road,  
Somajiguda, Hyderabad- 500 082.

### BANKERS

State Bank of India  
The Bank of Rajasthan Ltd.

### REGISTERED OFFICE

1-10-75/1/1-6, 3rd Floor,  
Saptagiri Towers,  
S.P. Road, Begumpet,  
Hyderabad- 500 016, India.

### REGISTRARS & SHARE TRANSFER AGENTS

Dakshin Consultants (P) Ltd.,  
# 6 - 3 - 655/2/4,  
Civil Supplies Bhavan Lane,  
Somajiguda,  
Hyderabad - 500 082.

### PLANTS

**Patancheru Unit,**  
IDA, Patancheru,  
Medak (Dist), A.P.

**Isnapur Unit,**  
Isnapur Village,  
Medak (Dist.), A.P.

**Tarapur Unit,**  
MIDC, Tarapur, Maharashtra.

**Ponneri Unit,**  
Chennai (Under Construction)

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## DIRECTOR'S REPORT

To

The Members,

Your Directors present the 30th Annual Report together with the Audited Accounts for the 16 months period ended July 31, 2006.

### FINANCIAL RESULTS:

(Rs. in Crores)

| Particulars  | 16 months<br>period ended<br>July 31, 2006 | 12 months<br>period ended<br>March 31, 2005 |
|--|--|---|
| Gross Sales  | 646.90                                     | 369.65                                      |
| Net Sales  | 609.25                                     | 347.89                                      |
| Earning before Interest,<br>Depreciation and Tax (EBIDT) | 50.51                                      | 22.21                                       |
| Profit from operations                                   | 25.98                                      | (6.99)                                      |
| Profit due to non recurring item                         | 23.36                                      | -   |
| Profit Before Tax (PBT)                                  | 49.34                                      | (6.99)                                      |
| Provision for deferred tax liability                     | 7.67                                       | (2.18)                                      |
| Profit After Tax (PAT)                                   | 41.67                                      | (4.81)                                      |
| Annualised EPS (Rs. 5/-)                                 | 3.74                                       | (2.87)                                      |

### PERFORMANCE:

During the year under review, your company has made a remarkable turnaround in all areas of operations.

The company's sales have risen to Rs.647 Crores (for 16 months period from April 2005 to July 2006) from Rs.369 Crores (for the earlier 12 months period) and made a gross profit (EBIDT) of Rs.50.51 Crores as against the previous year's gross profit of Rs.22.21 Crores. Further, it's heartening to note that the company has registered a pre tax profit (PBT) of Rs.49.34 Crores after accounting the non-recurring income. The company is planning to keep up the momentum in sales and improve the profitability during the current year. Your company is transforming itself from making commodity cold rolled steel products to making value added steel products and engineered auto components.

Production of all products was 1,68,451 MT and the product mix was improved by increasing the proportion of value added products like formed profiles and pressed components. A precision tube line was also commissioned which is producing products for the auto, transportation and construction sectors. A new fabrication shop has been commissioned where fabrication work is being done for Electro Static Precipitators (ESP) and seed processing plants.

Your company forged strategic linkages with two major overseas companies, FL Smidth of Denmark and Hamon Research & Cottrel of Belgium and has made a beginning with export of ESP products.

The company has acquired 35 acres of land near Chennai and is in the process of setting up its fourth manufacturing facility to make profiles and auto-components.

Your company continued to maintain its quality rating through ISO 9001: 2000 for the rolling, forming and components divisions.

### FINANCIAL RESTRUCTURING:

The company has implemented major financial restructuring during the year with the induction of Rs.122.4 crores from two foreign investors, Eight Capital of New York and Spinnaker Capital of London. The company has issued to them 50,32,700 Part-A convertible debentures of Rs. 100/- each, which would be converted within 18 months from the date of allotment, into 3,41,20,000 equity shares of Rs.5/- each, at a premium of Rs.9.75 per share and 72,07,300 Part-B convertible debentures of Rs.100/- each, convertible, at the option of the debenture holders within 18 months from the date of allotment, into 1,44,14,600 equity shares of Rs.5/- each, at a premium of Rs.45/- per share.

Out of the Rs.122.4 crores proceeds of the convertible debentures, Rs.107.30 crores have been utilized to make the payments to the existing lenders for settling long term debt and the balance of Rs.15.10 crores is being utilized for capital expenditure needed for setting up the new plant at Chennai. The restructuring has reduced the long-term debt and has made the company financially strong. A Draft Rehabilitation Scheme based on above financial restructuring has been submitted to the Board for Industrial and Financial Reconstruction.

### ENVIRONMENT:

Your company continues to maintain its plants in an eco friendly manner with new tree plantations in the premises. Your company has commissioned a Sewerage Treatment Plant for conservation of water resources.

### DIVIDEND:

Though the company had made a profit during the period under review, but due to the presence of accumulated losses and in the absence of profits available for declaration of dividend as per the provisions of Section 205 of the companies Act, 1956, your directors are unable to recommend a dividend on the preference shares and equity shares for the period under review.

### DIRECTORS:

Shri P. Bhaskara Rao and Shri Vijay Chandra Puljal retire by rotation at the ensuing Annual General Meeting, and

being eligible, offer themselves for reappointment.

Shri Ravi Chachra and Shri Tarun Gandhi were inducted as additional directors on the Board of the company representing the foreign investors, Eight Capital and Spinnaker Capital respectively. Shri A. Krishna Rao was inducted as an additional director.

Prof. Laxmi Narain and Dr. N. Kondal Rao have resigned as directors from the Board. Your directors place on record their appreciation of the services rendered by them during their tenure as directors of the company.

#### **AUDITORS:**

The Auditors, M/s Rambabu & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office, if reappointed.

#### **DIRECTORS' RESPONSIBILITY STATEMENT:**

In terms of Section 217(2AA) of the Companies Act, 1956, the directors would like to state that:

- i. in the preparation of the annual accounts, the applicable accounting standards have been followed,
- ii. the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for the year under review,
- iii. the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities,
- iv. the directors had prepared the annual accounts of the company on a going concern basis.

#### **MANAGEMENT DISCUSSION & ANALYSIS:**

The report on management discussion and analysis forming part of Director's Report is annexed.

#### **CORPORATE GOVERNANCE:**

A separate section on Corporate Governance with a detailed compliance report thereon is annexed and forms part of the annual report. The Auditor's Certificate in respect of compliance with the provisions concerning Corporate Governance, as required by Clause 49 of the Listing Agreement, is also annexed.

#### **PUBLIC DEPOSITS:**

The company has settled all the public deposits for which claims have been received from the deposit holders. The amount of deposits as on 31st July 2006 was Rs. 62.53 lakhs. No fresh deposits were accepted during the period under review.

#### **PERSONNEL:**

Your directors place on record, their sincere appreciation of the company's employees at all levels whose dedication and commitment has been responsible for the recovery and growth of the company under challenging circumstances.

No employee was in receipt of remuneration, which requires disclosure in terms of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended.

#### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:**

In accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, the required information relating to conservation of energy, technology absorption and foreign exchange earnings and outgo is annexed.

The Board wishes to thank the all India financial institutions, State Bank of India, Bank of Rajasthan, Eight Capital and Spinnaker Capital, customers, suppliers and shareholders for their continued support.

For and on behalf of the Board

Place : Hyderabad

Date : September 26, 2006

**Nrupender Rao**

Executive Chairman