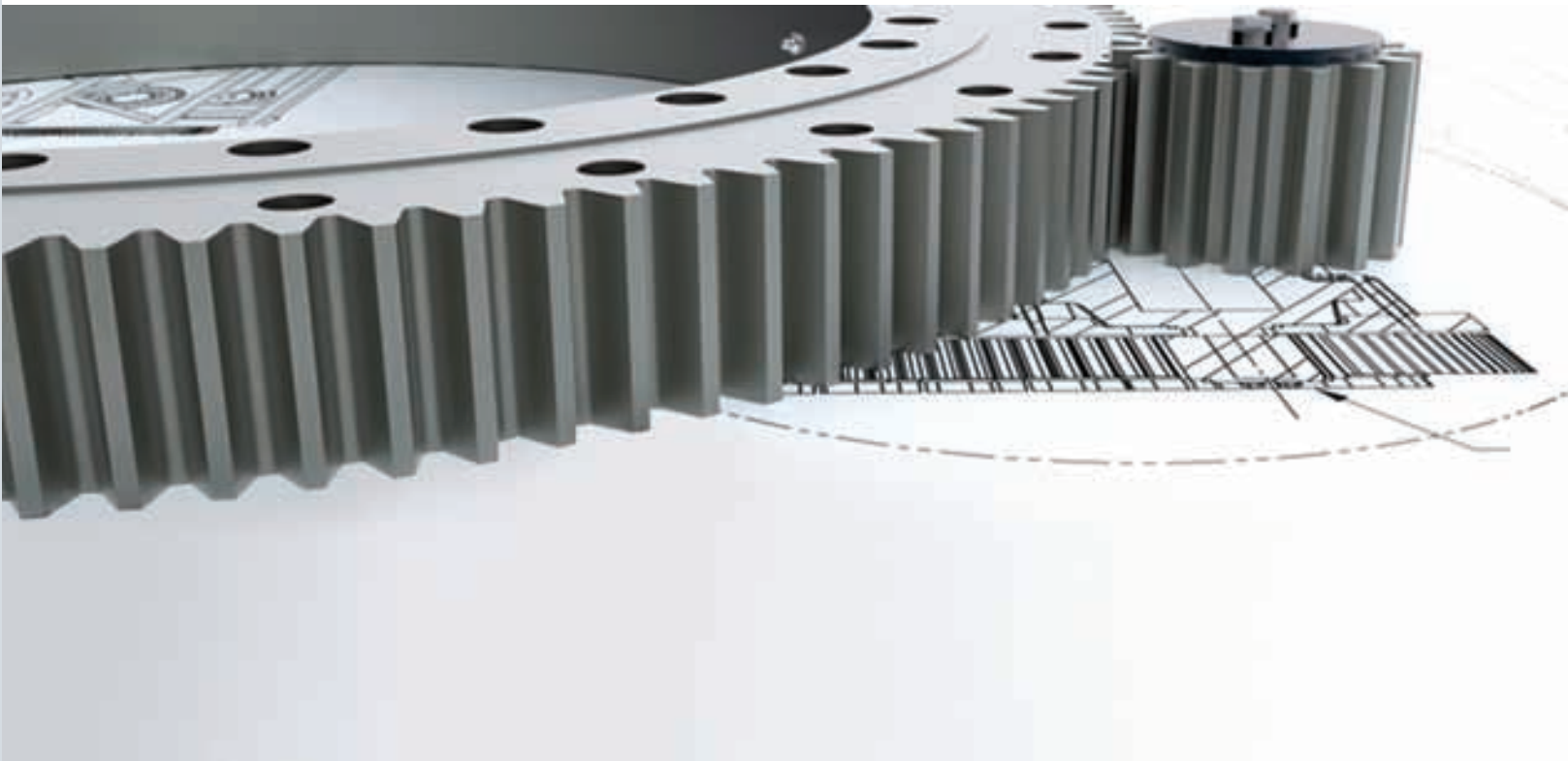


ENGINEERING EXCELLENCE



Annual Report
2010-11



Pennar Industries Limited

Corporate information

Board of Directors

Shri Nrupender Rao (*Executive Chairman*)
Shri Ravi Chachra
Shri Dr. G Vivekanand
Shri C Parthasarathy
Shri B Kamalaker Rao
Shri A Krishna Rao
Shri C Rangamani
Shri P Bhaskara Rao
Shri Manish Sabharwal (*Additional Director*)
Shri J Ramu Rao (*Additional Director*)
Shri Ch Anantha Reddy (*Managing Director*)
Shri Aditya Rao (*Director - Projects*)

Vice President and Company Secretary

Shri R Ravi

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
Axis Bank Limited
State Bank of Patiala

Registered office

Floor No. -1, DHFLVC Silicon Towers
Madhapur Road,
Kondapur
Hyderabad - 500 084, India

Registrars and Share Transfer Agents

Karvy Computershare Pvt. Ltd.
Plot no.17-24, Vithalrao Nagar,
Madhapur, Hyderabad - 500081

Plants

Patancheru Unit

IDA, Patancheru - 502319, Medak (Dist.), A.P.

Isnapur Unit

Isnapur Village - 502307
Medak (Dist), A.P.

Chennai Unit

Kannigaipair Village, Uthukottai Tq
Thiruvellore Dist, Tamilnadu – 601 102

Tarapur Unit

J-72, MIDC, Tarapur
Maharashtra-401506.

Hosur Unit

43, SIDCO Industrial Estate
II Phase, Hosur Tamil Nadu

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At Pennar, we have created a robust foundation for dynamic growth.

- We are providing products that require complex engineering.
- We are investing in our business to provide customised solutions.
- We are providing solutions that save costs for our customers.
- We are offering solutions that are unconventional and environment-friendly.
- We are building our business around a robust financial foundation.

Through two words. *Engineering excellence.*



Pennar. Creating a culture of engineering excellence. With the objective to achieve consolidated revenues of Rs. 2,200 crores (half a billion US dollars) in four years.

Lineage

- Established in 1988 to manufacture 30,000 TPA of cold rolled steel strips. Diversified to emerge as a leading engineering company with over 100 precisely-engineered products
- Set up a subsidiary, Pennar Engineering Building Systems (PEBS) to engage in the design, manufacture and installation of pre-engineered buildings.
- Headed by Mr Nrupender Rao (Executive Chairman), Mr Ch Anantha Reddy (Managing Director), Mr Aditya Rao (Director-Projects) and a team of experienced professionals

Presence

- Headquartered in Hyderabad, India
- Manufacturing locations at Patancheru, Isnapur, Chennai, Tarapur and Hosur
- Manufacturing facility of pre engineered building subsidiary at Sadashivpet (Andhra Pradesh)
- All plants certified for ISO 9000
- Pan-India sales and marketing network with 13 offices across nine states
- Shares listed and traded on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE)

Vision

Our vision is to be a globally reputed engineered metal products company. We endeavour to have a strong and enduring relationship with our customers based on quality and service.

Mission

Our mission is to leverage our modern infrastructure, technical expertise and decades of experience to provide high quality and cost-effective metal products to our customers. We are committed to ensure rewarding experiences to our customers. We work closely with shareholders, suppliers, customers and employees to ensure attractive economic returns for every stakeholder.

Over the years

1988

Commissioned CRS Complex, Isnapur
30,000 TPA

1995

Expanded capacity to 50,000 TPA

1997

Acquired Nagarjuna Steel, Patancheru;
142,000 TPA

1999

Acquired Press Metal Profile division of
Tube Investments, Tarapur; 10,000 TPA

2004

Commissioned precision components
plant at Hosur, 2,000 TPA

2007

Expansion at Patancheru plant

2008

Commissioned profiles, components
and sub-assemblies in Chennai,
30,000 TPA

2009

Commissioned pre-engineered
Buildings Plant, Sadashivpet,
30,000 TPA

2010

- PEBS capacity expanded to 60,000 MT
- Expansion in Isnapur plant of 24,000 MT
of Precision Tubes/CDW and 12,000 MT
of heavy fabrication

Corporate highlights, 2010-11

Operational highlights

- Increased cumulative capacity from 1,82,500 TPA in 2009-10 to 2,43,000 TPA in 2010-11
- Increased production 28% from 1,41,116 TPA in 2009-10 to 1,80,606 TPA in 2010-11
- Increased sales of value-added products from 88,245 MT in 2009-10 to 1,17,141 MT in 2010-11
- Yield marginally decreased from 90.9% in 2009-10 to 89.7%
- Introduced Sheet Piles, Galvanized Tubes, Super deck, Centre Sill and Side top Copping Products

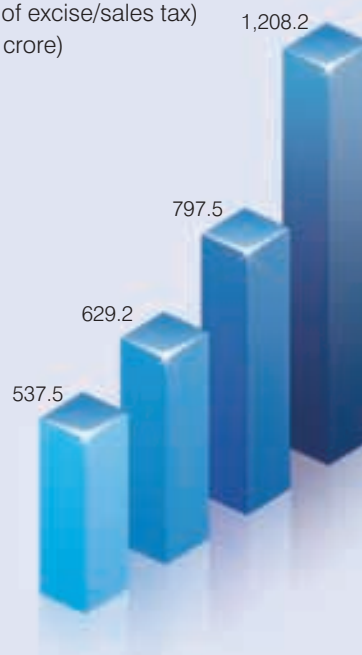
Financial highlights

- Consolidated revenue after Excise Duty & Sales Tax increased 51.5% from Rs. 797.5 crores in 2009-10 to Rs. 1,208.2 crores
- Consolidated EBIDTA increased 34.9% from Rs. 110.9 crores in 2009-10 to Rs. 149.6 crores
- Increased consolidated post-tax profit 48.5% from Rs. 49.8 crores in 2009-10 to Rs. 73.9 crores
- EBIDTA margin declined 150 basis points from 13.9% in 2009-10 to 12.4%
- Post-tax profit marginally decreased 10 basis points from 6.2% in 2009-10 to 6.1%
- Return on capital employed increased 640 basis points from 25.8% in 2009-10 to 32.2%

Excellence. Reflected in our numbers.

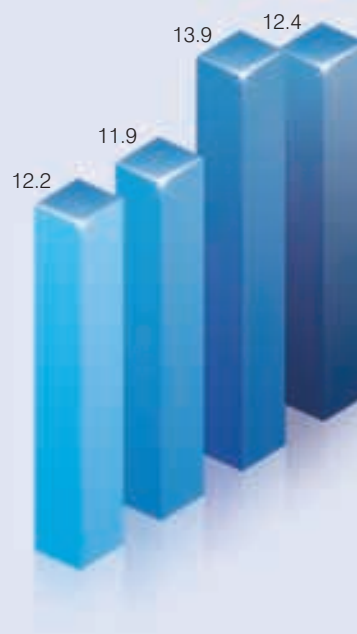
Revenue

(net of excise/sales tax)
(Rs. crore)



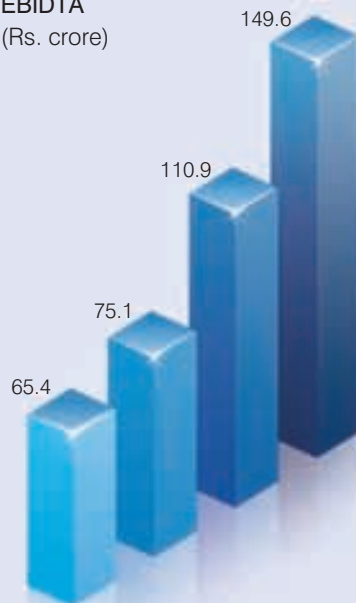
EBIDTA margin

(%)

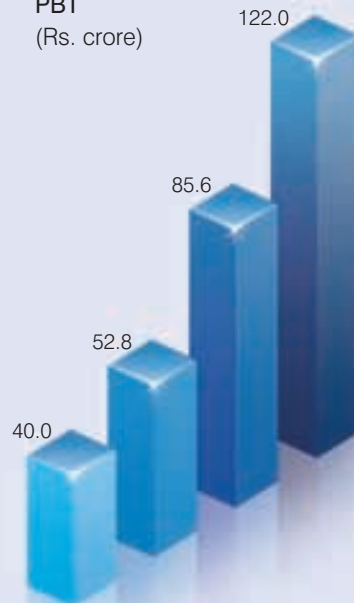




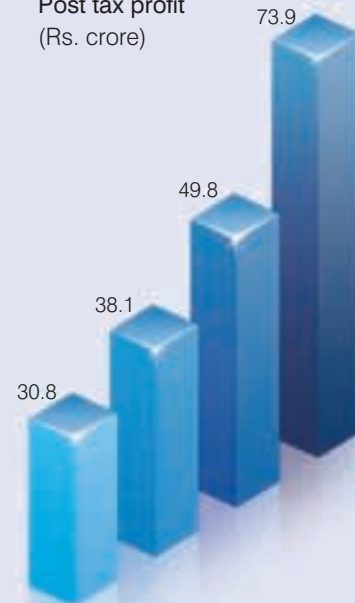
EBIDTA
(Rs. crore)



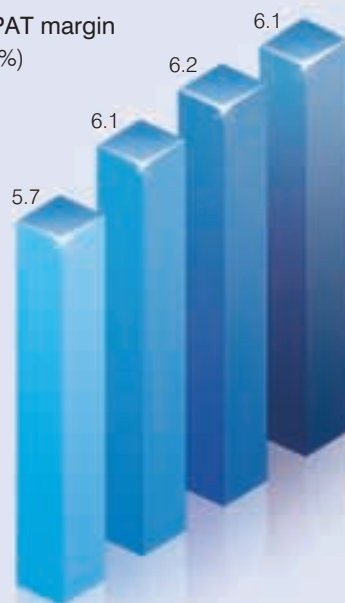
PBT
(Rs. crore)



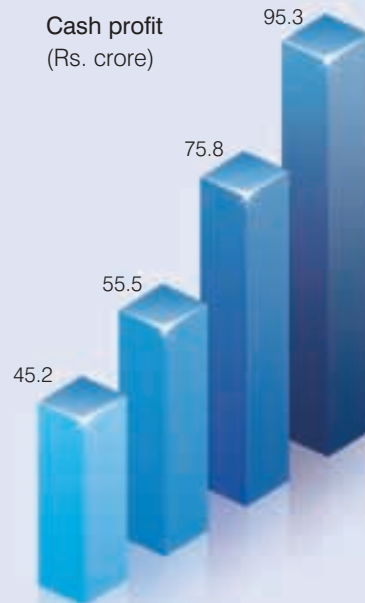
Post tax profit
(Rs. crore)



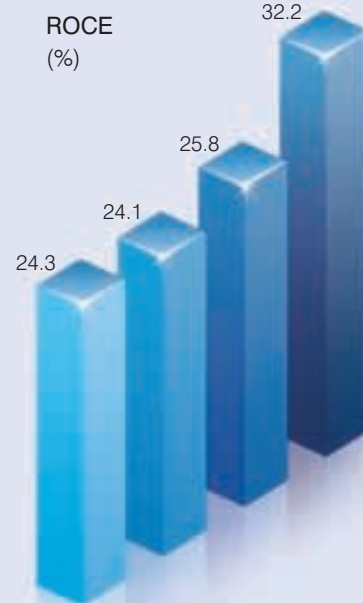
PAT margin
(%)



Cash profit
(Rs. crore)



ROCE
(%)



Note:

1) Figures for 2007-08, 2008-09 pertain to standalone

2) Figures for 2009-10, 2010-11 pertain to consolidated

Chairman's overview

“We have emerged as a strong engineering company with a robust financial foundation”

Mr. Nrupender Rao, Executive Chairman, reviews Pennar's performance during the financial year under review and highlights the impending growth.

Dear Shareholders,

I am proud to present the results of the financial year 2010-11 of Pennar Industries Limited.

The Company's consolidated revenue increased 51.5%, while consolidated gross profit and net profit grew 34.9% and 48.4% respectively. Our net profit increased from Rs. 49.8 crores in 2009-10 to Rs. 73.9 crores, an impressive growth of 48.4%.

This performance was not the result of something that we did during the last financial year; this was the result of what we have been consciously doing for a number of years. The performance was a part of our planned transformation from a commodity-based product manufacturer to a specialised engineered products company.

By the close of the financial year under review, we grew across every single quarter for the last 25 quarters, including the entire tenure during late 2008 to the first half of 2009 when the global economy passed through a challenging downturn.

Our priorities

A number of factors resulted in this unique performance.

- A clear recognition that we wished to build a valuable business that would offer products and solutions not easily possible for most companies. If we did this, we were convinced that sustainable growth would be an inevitable byproduct



- We were clear as to what this company needed to possess to be valuable – a relatively niche business presence, the brand of a specialist, the ability to evolve a product into a service, healthy margins and adequate cash flow

- A specialisation in business spaces that would require an increasing interplay of knowledge and customisation; this would separate us from the crowd on the one hand and protect our margins on the other. Besides, this would evolve us from a mere provider of material to a trusted partner, extending into repeat engagement and ongoing revenue flows.

- While most engineered product companies would have selected to focus on the growth emerging from one sector, Pennar widened its product mix to address the growth coming out of four different business segments, de-risking itself from an excessive dependence on any one segment

- We had our manufacturing personnel meet customers, understand their specific needs and offer customised solutions. Besides, these engagements resulted in a deep insight into each of our customers' businesses, making it possible for us to offer holistic solutions, and take the customers' businesses ahead.

Relevant decisions

These priorities translated into relevant business-strengthening implications for Pennar.

- We evolved from 10 businesses five years ago to 14 businesses in 2010-11, no business accounting for more than 10% of our revenues (excepting Railways), each business growing by at least 5% and the fastest having grown 53% during 2010-11

- We increased capacity across our manufacturing facilities to respond to the demands of the growing Indian economy. We doubled our pre-engineered building capacity in 2010-11; we are increasing our capacity for fabricated products and precision tubes capacity at our Isnapur manufacturing unit in 2011.

- We grew our presence in fast-growing Indian sectors. For instance, we grew our presence in the Railways segment. We introduced new profiles, which find application in coaches and wagons. We introduced side frames for wagons, under frames and other fabricated items. Result: Railway revenues increased 39% in 2010-11 to 21.4% of our total revenues.

- We captured the upswing in the Indian automobile industry. Revenues from auto component products increased 64.6% in 2010-11. Our Chennai plant is strategically located to service the large automobile market in that region.

- We recognised the growing relevance of being environment-friendly and manufactured electrodes for electrostatic precipitators extensively used for pollution control in the cement and thermal power industries. We increased revenues in

this sector by 75.5% in 2010-11.

- Our pre-engineered building (PEB) subsidiary attracted prestigious customers like L&T, Ultratech Cement, Dr Reddy's, My Home Cements, Asian Colour Coated Steel, Core Green Sugar, among others in its very first full year. The subsidiary executed 45 projects and enjoyed an order book of Rs. 178 crores as on 31st March 2011. The plant was the first in India to be awarded a Gold certificate by the Indian Green Building Council.

- We reinforced our commitment to quality and customer service leading to new customer wins and repeat orders. Around 70% of our 2010-11 revenue was generated from repeat orders.

Building a solid financial foundation

I am happy to state that our wish list translated into some credible numbers:

- The entire capital investment in the last two financial years was funded by cash accruals.

- Working capital as a proportion of our total employed capital was a modest 58.8% in 2010-11

- We strengthened our inventory management cycle from 87 days of turnover equivalent in 2009-10 to 63 days in 2010-11. This helped us reduce our short-term loans in two years even as our turnover grew 54%.

- We repaid Rs. 17 crores of long-term loans in 2010-11. This helped

rationalise our debt-equity ratio to 0.1, providing room to mobilise additional debt whenever needed.

- We received an improved rating from CARE (premier credit rating agency). Our credit rating for long-term debt was revised from 'A-' to 'A' and the credit rating for our short-term debt from 'PR2+' to 'PR1'.
- We registered a 640 basis point improvement from 25.8% in 2009-10 to 32.2% in 2010-11 in our return on employed capital, an effective tool for measuring returns for every rupee invested in the business.

Industry bullishness

The good news is that the broad industry growth is expected to sustain: the Indian government has outlined larger investments in the Twelfth Plan. Pennar is present in product segments that will receive larger outlays.

Infrastructure: The Planning Commission of India envisaged an infrastructure investment of Rs. 41 lakh crores in the Twelfth Five Year Plan, a 100% increase over the Eleventh Five Year Plan outlay.

Railways: The Indian Railway Budget

2011-12 allocated the highest ever annual outlay of Rs. 57,630 crores, which will translate into a higher offtake of wagons, coaches and locomotives.

Construction: India represents the most viable infrastructure investment in the world, with a high growth rate that is expected to sustain into the long-term.

Dividend

We proposed a total dividend of 25% for our equity shareholders.

Corporate Social Responsibility

Your Company believes that it should be a responsible corporate citizen and contribute to society. You will be happy to know that your Company supported education and sanitation in schools in villages near our plants and some backward areas.

We conducted a carbon footprint study at our Patancheru and Sadashivpet plants. The emissions are comparatively lower than other companies, owing to several green initiatives undertaken.

Pennar's Carbon Footprint

Pennar has always been an environmentally-conscious and socially responsible company. Pennar's subsidiary Pennar Engineered Building Systems Limited (PEBS) was awarded the Gold Rating by the Indian Green Building Council, and is the first factory in the country to receive the Gold Award.

Pennar conducted a carbon footprint study as an internal assessment based on the Corporate Green House Goods (GHG) Inventory Programme formulated by CII. The study was carried out at Pennar's Patancheru and PEBS plants. Results show that carbon emissions per metric tonne are fairly low – at 0.2 MT at Pennar and 0.1 MT at PEBS.

Carbon emissions reduced as a result of several measures:

- A 25 kW solar PV system was installed at the PEBSL Sadasivapet factory with a capacity to generate about 35,000 units per annum. This system will reduce CO2 emissions by 28,000 kgs per annum.
- Sewerage Treatment Plants (STP) are located at PIL Patancheru and

Capacity additions (TPA)

	2010-11	2011-12	2012-13
Engineered products	500	7750	8350
Heavy engineering products	–	23750	–
Infrastructure	7500	–	5750
Pre-engineered building products	30,000	–	20000
Total capacity	38000	31500	34100