

REDEFINING EFFICIENCY



Strong
engineering
capabilities

Robust
manufacturing
process

Growth
oriented and
margins-focused
business model



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Forward-looking statements

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make, contain forward-looking statements that set out anticipated results based on the management's plans and assumptions.

We have tried wherever possible to identify such statements by using words such as 'anticipates',

'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion on future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions.

Should known or unknown risks or uncertainties materialise or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

At Pennar, our operative philosophy is drawn from a single argument.

The world's-fastest growing economy cannot afford an engineering sector where corporates nurse weak Balance Sheets and unviable business models.

At Pennar, we set about transforming our conventional business model around this overriding perspective.

Strengthening our Balance Sheet.

Fine-tuning our operational dynamics.

Overhauling our sectoral focus.

Enriching our client portfolio.

The result is visible in our numbers.

The Company reported profitable growth for the second successive year in 2015-16.

Revenues increased. EBIDTA margins strengthened.

A weak economy notwithstanding, Pennar is well on its way to a bright future.



Pennar is redefining efficiency.

From being output-driven to being margins-focused.

From a product manufacturer to a solutions provider.

From a run-of-the-mill fabricator to a technology-led change maker.

From having a presence in conventional sectors to foraying into futuristic spaces.

From a one-off vendor to a partner for life.



A number of metal product companies focus on carving out small shares of large conventional sectors; we are focused on carving out large shares of small but fast-growing niches.

A number of businesses in conventional sectors are focused on how much they can produce; we are focused on how much value we can add.

A number of engineering companies are resource-strapped; we desire to enhance Pennar's cash-richness.

A number of metal product companies start and end with one product; we seek to make Pennar a multi-products organisation.

A number of fabrication companies are positioned around their product identity; we are positioned as an engineered metal products company instead.

A number of fabrication companies are dependent on prospects from one downstream sector; we service a number of them instead.

A number of engineering-driven companies are economy-dependent; we seek to bolster our financials on a quarter-by-quarter basis.

Corporate identity

Pennar Industries Limited.

The go-to destination for mission-critical precision engineering products.

One of the most diversified engineering companies in the country.

And one of the fastest-growing within its sector in India.

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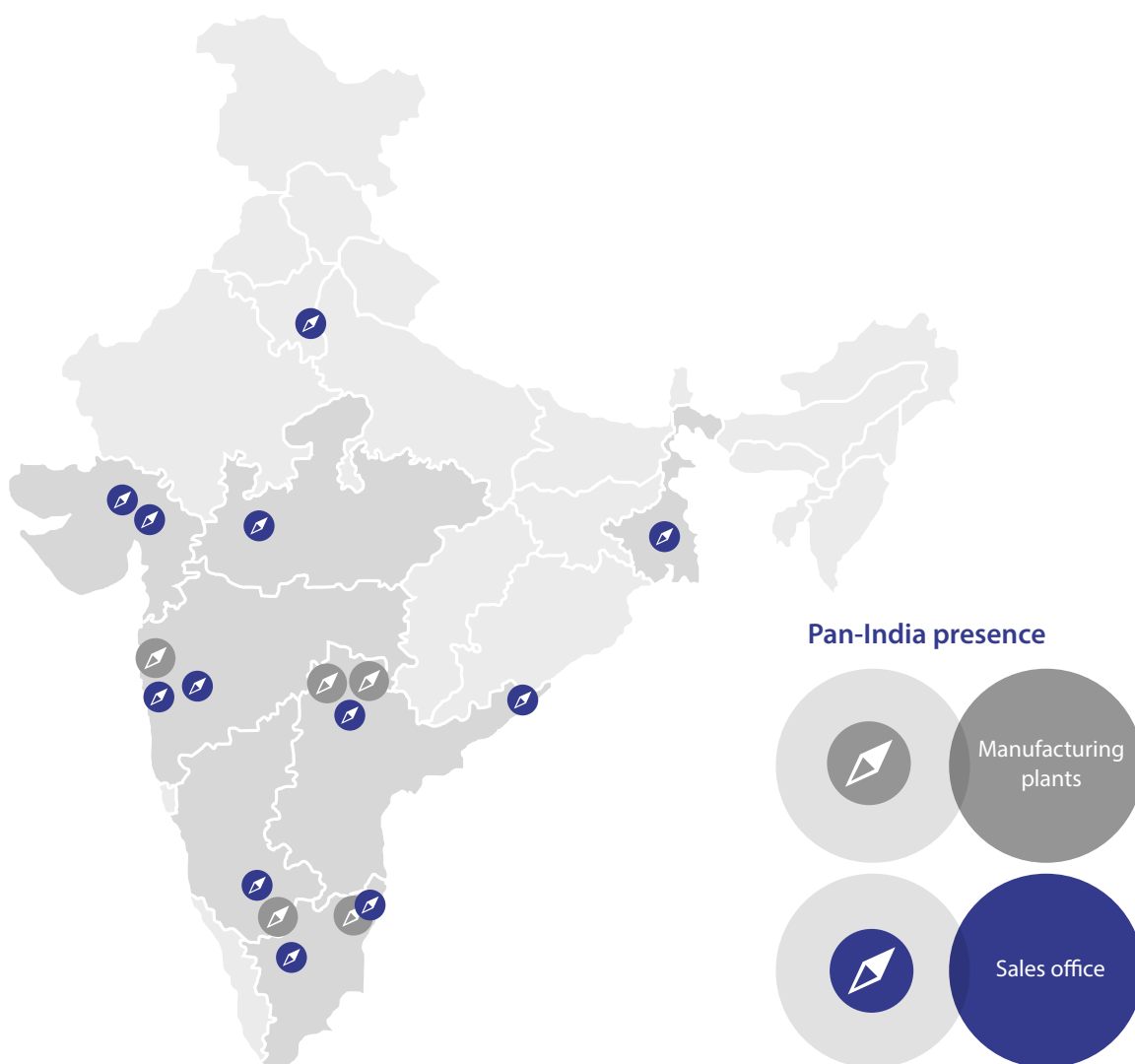
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Vision

Our vision is to evolve into a globally reputed diversified engineering company. We endeavor to have a strong and enduring relationship with our customers based on the quality of our products and services.



Mission

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

Legacy

Established in 1988, Pennar is headed by Mr. Nrupender Rao (Chairman), Mr. Aditya Rao (Vice Chairman and Managing Director) and managed by experienced professionals.

Location

- Headquartered in Hyderabad, Telengana
- Pan-India manufacturing locations in Patancheru, Isnapur, Sadashivpet, Mallapur (Telengana), Chennai, Hosur (Tamil Nadu) and Tarapur (Maharashtra)

Listing

- Shares listed and traded actively on the Bombay and National Stock Exchanges
- Market capitalisation of ₹577.68 crore (as on 31st March 2016)

Clientele

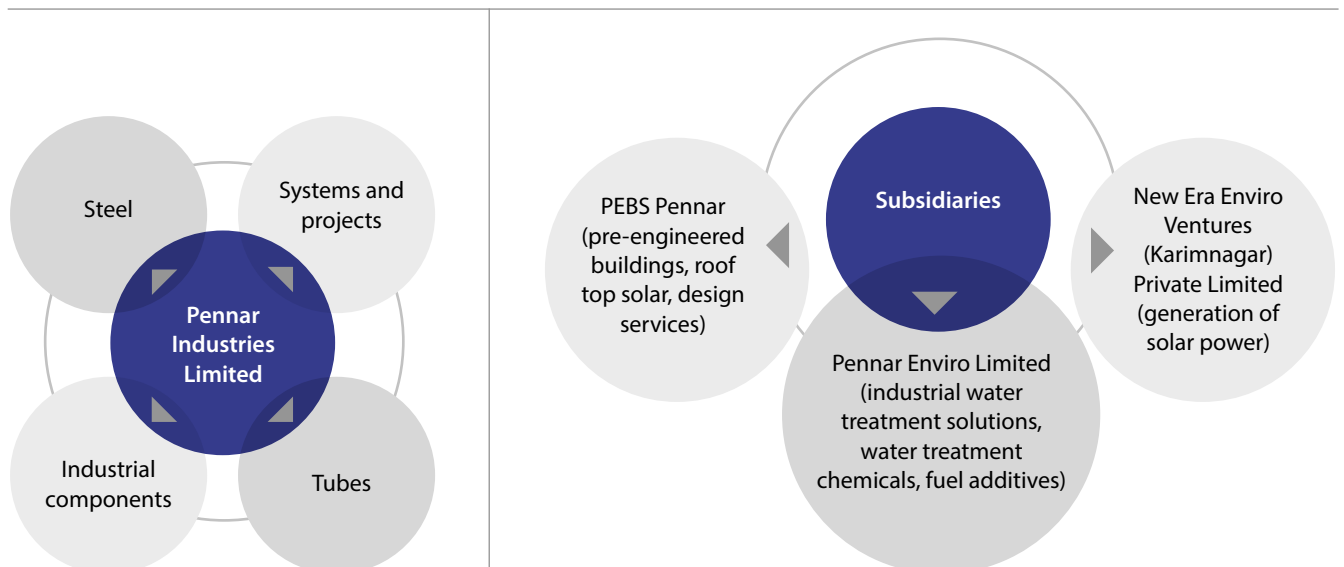
- Prominent customers from diverse sectors (infrastructure, automobiles, power, general engineering and construction, among others)

Quality

Bestowed with ISO 9001:2008 and ISO/TS 16949:2008 certifications for an unwavering emphasis on quality

Subsidiaries

- Pennar Engineered Building Systems is engaged in the design, manufacture, supply and installation of pre-engineered steel buildings and building components
- Pennar Enviro Limited operates in the field of waste water treatment and fuel additives, among others.
- New Era Enviro Ventures (Karimnagar) Private Limited is engaged in the commercial generation of solar power (23 megawatts) in Telengana.





Chairman's overview

Bear Friends,

It gives me pleasure to present the Annual Report for Pennar Industries Limited for the financial year ending March 2016. Pennar Industries delivered growth in revenue and profits across all business units and subsidiaries. The consolidated gross revenues of the Company increased to ₹1,480.54 crore, while PAT increased by 22.14% to ₹43.85 crore.

Pennar Industries operates in a diverse range of sectors in India including general engineering, solar energy, railways, building construction, water treatment, automotive and specialty additives. Consequently, we consider ourselves a diversified engineering firm with a strong presence in engineering, infrastructure and capital goods segments. While this diversification does afford us a level of protection from general market downturns, some of our verticals such as industrial components did struggle to increase revenue and scalability. The decline in steel and commodity prices over the course of this financial year also resulted in a decline in selling price across

most of our product categories. However, margins did increase in almost all of our business verticals due to the combination of a higher percentage of higher margin orders and better spreads.

Our markets are primarily in India. The Indian infrastructure and capital goods sectors have been extremely volatile. Our Business Unit heads and the CEOs of our subsidiaries have accordingly focused their capital and management on growing in high-margin verticals. Railways, solar, pre-engineered buildings and environment businesses reported high growth in terms of revenues and profitability. I congratulate our BU heads and our CEOs for accomplishing solid and sustainable

growth in a year dominated by market uncertainty. We remain optimistic that our India businesses will continue to increase and in planning for our growth over the next few years, we are confident that all of our business verticals and subsidiaries will report attractive revenue and margin growth.

While a growing component of our overall sales revenue will be derived from international sales, for the near-term we will remain an India-focused company. We are confident that over the next few years, we will substantially increase the proportion of our sales from our international operations. Our current international revenue streams include hydraulic systems, industrial components, precision tubes and structural engineering services. Our international business verticals all have high margins, strong partnerships and significant scalability potential. We believe that within the next few years, we would be able to achieve a revenue share of 20% from our international business operations.

The standout performers in this last financial year were our railways, solar, PEBS and environment verticals.

An increasing influx of orders from the Integral Coach Factory and RCF propelled revenue growth in the railways segment. We expect this increase to be a part of a multi-year trend allowing our railway revenues to grow, fuelled by an increasing offtake of railway coaches and wagon components. While the wagon components vertical is more volatile, we are seeing an increased level of enquiries and steady order book growth. We continue to invest in scaling our manufacturing capacities and upgrade our technology platform by procuring laser fibres stretch-forming and specialised infrastructure for the manufacture of coach roof assemblies.

Our solar module mounting system (MMS) vertical is split between Pennar Industries

and its subsidiary Pennar Engineered Building Systems. While Pennar Industries manufactures multi modular structural components, PEBS provides turnkey design, supply and erection of MMS systems including civil and DC works. The solar revolution in India started with the National Solar Mission and is currently exhibiting high growth rates with the state solar policies driving a rapid expansion in the demand for the installation of solar photovoltaic plants. This has created a large market opportunity and accordingly solar revenues scaled during this financial year.

Together, PIL's solar and railways business verticals (comprising our systems and projects businesses) achieved a growth of 50.53% to reach ₹293.36 crore in sales.

Pennar Engineered Building Systems is the second-largest business vertical at Pennar, and the most profitable. Since 2010, PEBS achieved strong growth in terms of revenues and margins and closed the last financial year with sales of ₹491.21 crore. PEBS also started operations from a leased plant in Vadodara and intends to complete its own plant during this financial year. With an ever increasing order book and new growth verticals in high rise buildings and engineering services, PEBS is well-placed to continue on the path of high growth.

Pennar Enviro (PEL), a subsidiary of Pennar Industries, operates in the specialty additives, water treatment and environment technologies segments. With a fast-growing order book, PEL completed desalination, demineralisation, effluent treatment and recycling and zero liquid discharge projects across India. The Company also built strong core capabilities in instrumentation and civil design. It is the fastest-growing Pennar vertical and achieved gross sales of ₹100.50 crore.

In the realm of corporate social responsibility, we made new investments during the last financial year to enhance

the quality of lives in the country and especially in the towns, villages neighbourhoods that we operate in.

The positioning of Pennar Industries will allow us to record growth relentlessly. Any revival in the capex cycle will provide a boost to our revenues and profitability but each of our business units is well geared to ensure that they continue to record good growth. I am confident that the next few years will see Pennar Industries continue to evolve into a stronger engineering company.

In conclusion, I would like to express my thanks to all of our shareholders, employees, customers, suppliers and the Board of Directors for their support and goodwill.

With best wishes,

Nrupender Rao
Chairman

While a growing component of our overall sales revenue will be derived from international sales, for the near-term we will remain an India-focused company. We are confident that over the next few years, we will substantially increase the proportion of our sales from our international operations.



Review by the Managing Director

Dear Shareholders

I am thankful for the opportunity to address you in the Annual Report for Pennar Industries for the financial year ending March 2016. I would like to take this chance to speak with you about our performance for the year and also about our medium-term and long-term growth prospects and strategic initiatives.

Performance for the financial year

The financial year 2015-2016 saw us achieve our highest-ever sales for the consolidated company. We achieved gross sales of ₹1,480.54 crore, EBIDTA of ₹151.33 crore and PAT of ₹43.85 crore even as EBIDTA margins grew to 11.6% in FY 2016 from 9.6% in the previous financial year.

Pennar Industries as a standalone entity consists of the following entities:

- Systems and Projects – Railways and Solar MMS Components
- Industrial Components – General Engineering and Automotive Components
- Engineered Tubes – ERW and CDW Tubes
- Steel BU - Cold Rolled Steel Strips and Formed Sections (Steel BU)

Pennar also has two subsidiaries:

- Pennar Engineered Building Systems
- New Era Enviro Ventures (Karimnagar) Private Limited

Business unit performance

Systems and Projects is the second largest business unit in the consolidated company in terms of revenues and profitability. It includes the Railways and Solar verticals, which have both exhibited high growth in revenues in the past two financial years. The order book for this business division stands at ₹190 crore and we expect this business division to continue growing.

The Railways vertical consists of our Coaches and Wagon Components business. On the back of new orders from ICF and RCF for coaches and from major integrators for wagons, our revenues from the railways vertical should continue to scale well over the next few years. The railways business will be operated from our Chennai and Hyderabad plants and we do have plans to expand our manufacturing operations to North India as well.

Sales in standalone solar module mounting structures were also recorded in the Systems and Projects Business Unit. This business division reported growth at a fast clip from ₹91.57 crore in FY 2015 to ₹184.99 in FY 2016. With India's grid-connected photo-voltaic plants market set to expand for the next few years at a rapid pace we are extremely confident that this business vertical will continue to scale in revenues and profitability. We look forward to high growth in our standalone solar MMS sales in FY 2017.

The Industrial Components business unit consists of sales of a range of automotive and general engineering components. It also includes our Hydraulics business division. We have not been able to grow this business division to our expectations. We continue to invest in capacity and precision improvements that we believe will drive organic growth but also feel that the business vertical is capable of generating high revenue and cash flow growth. During the FY ending March 2016, the division recorded gross sales of ₹69.90 crore, which is flat compared to the previous financial year. While the performance for FY 2016 was muted, we believe that there are compelling growth opportunities for this business division over the medium-term. We will consequently continue to invest resources in building capabilities and expanding capacities for the Industrial Components Business.

The Engineered Tubes business vertical has expanded rapidly over the past few years. With a strong operating team and a large market, we will concentrate on continual market share improvements for the next few years. We will also focus our growth trajectory and our capital and manpower resources on growing the cold drawn welded tubes (CDW) business and treat the electro resistance welded tubes (ERW) business as a feeder for further market share growth in CDW. We also believe that engineered tube manipulated products and stainless