



Annual Report 2016-17

PERFORMANCE 2016-17

OLIDATED

Pennar Industries Ltd. Annual Report

Forward looking Statement

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.

₹ 1549.42 cr

REVENUE 18.27% GROWTH RATE

₹ 74.92 cr

PAT

₹ 46.65 cr

3.01% MARGIN

EBIDTA

₹ 174.2 cr

11.2% MARGIN

EPS

₹ 3.88

RETURN ON NETWORTH

33.49%

RETURN ON GROSS BLOCK

25.23%

ANNUAL CAPEX

₹ 30.24 cr

INSIDE THE REPORT

04.	BUSINESS OVERVIEW
06.	CORPORATE IDENTITY
08.	CHAIRMAN'S OVERVIEW
12.	MANAGING DIRECTOR'S OVERVIEW
16.	LEADERSHIP SPEAK
28.	AWARDS AND ACCOLADES
29.	BUSINESS COMPETENCIES
30 .	IMPACT OF PENNAR
32 .	FINANCIAL PERFORMANCE
34.	PENNAR EVOLVING BUSINESS MIX
36 .	MANAGEMENT DISCUSSION AND ANALYSIS
43 .	RISK MANAGEMENT
44.	PENNAR SUBSIDIARIES
48.	HUMAN RESOURCES
49 .	INTERNAL CONTROLS AND THEIR ADEQUANCY
50.	NOTICE
59 .	DIRECTORS' REPORT
66.	CORPORATE GOVERNANCE REPORT
106.	STANDALONE FINANCIAL STATEMENTS
128.	CONSOLIDATED FINANCIAL STATEMENTS

ENGINEERING VALUE



PROFITABILITY

HIGH LIQUIDITY

SUPERIOR PRODUCT QUALITY

EVER-INCREASING SAFETY STANDARDS Growth is a unanimous goal for every organization but what differentiates the pioneers from the dilettantes is - pioneers place an immense onus on value-adding growth.

Over the years, Pennar's approach has been akin to a master sculptor's - each move deliberate and measured, each decision aimed at perfecting the magnum opus, each progressive step adding incremental value to the piece de resistance. We at Pennar take silent pride for having evolved over the years and for having emerged a holistic Engineering Organization, capable of catering holistic value to its customers and stakeholders.

The four pillars of Pennar's business are - Increased Profitability, High Liquidity, Superior Product Quality, and Ever-increasing Safety Standards. These continue to hold the organisation in good stead and continue to be the core drivers of growth year-on-year.

Capital Efficiency and Accelerated Growth - the cornerstones of Pennar's business philosophy serve as the key differentiators of the organisation and consciously add value to all of its processes and to all of its stakeholders. The results are visible in our numbers - Profitable growth, Increased Revenues and Strengthened EBIDTA margins.

Pennar's ROCE is a direct indicator of the balance the organisation has managed to strike. Ramping up manufacturing capabilities, setting up new revenue lines, installing new assets - both capital and human, and doing all of the aforementioned while retaining a steady growth story.

Pennar, the master sculptor, continues to adapt, prosper, and innovate.

REACHING FOR NEW HORIZONS

The year 2016-17 witnessed the cornerstones of the company's business philosophy i.e. Capital Efficiency and Accelerated Growth in their true glory. All business verticals and subsidiaries registered significant growth - some organically in line with the prevalent market conditions, a few others registering growth in excess to the market conditions by challenging the status quo and garnering a greater market share.

This year, however, shall remain etched within the annals of Pennar's history, with the company traversing upon its most ambitious journey yet. Pennar Industries' latest plant, located at Velchal, is its largest till date and equipped with state-of-the-art facilities. Built with the express intent of developing increased forward integration capabilities, the Velchal facility shall serve as a melting pot for talent and technology to converge and to emerge with new products, business lines and greater value addition for the company's ever-loyal customer base.

A year back, the COULD NOTs and DID NOTs outnumbered the COULDs and DOs.

A year back, Pennar COULD NOT perform Strip galvanizing operations, it CAN now.

A year back, Pennar COULD NOT provide its own Hot Dip Galvanized products, it CAN now.

A year back, Pennar DID NOT possess automated in-line manufacturing technology, it DOES now.

A veritable fork in the road, by setting up the Velchal unit and also ramping up capacities in other factories, Pennar has invested rapidly yet strategically created a launch pad for itself and for all of its stakeholders -



both internal and external - to be launched into the upper echelons of not just the Indian engineering space but the Global engineering market.

The possibilities now are immense, and the opportunities limitless.

Not just increased revenues but also increased profitability.

Not just improved capital assets but also improved human assets.

Not just regular grade product lines but also superior and special grade product lines.

Not just volume-based businesses but also valuebased quality-driven business.

Value Engineering has always been at the crux of Pennar's approach, it has been experienced by its employees and its stakeholders, it has enabled the company to withstand the vicissitudes of tide and time. The years to come will witness Pennar's Value Engineering philosophy permeating many unconquered horizons, ensuring that it emerges a truly global holistic engineering company.



AND ONE OF THE FASTEST GROWING WITHIN ITS **SECTOR IN INDIA**





OUR 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.

SUBSIDIARIES

Pennar Engineered Building Systems Limited

Pennar Enviro Limited

Pennar Renewables Private Limited

OUR 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.

PENNAR INDUSTRIES LIMITED



Steel



Tubes



Systems & **Projects**



Industrial Components

ONE OF THE MOST DIVERSIFIED ENGINEERING COMPANIES IN THE COUNTRY

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

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.

Pennar Renewables Private Limited is engaged in the commercial generation of solar power (28 MWDC) in Telengana.

Location

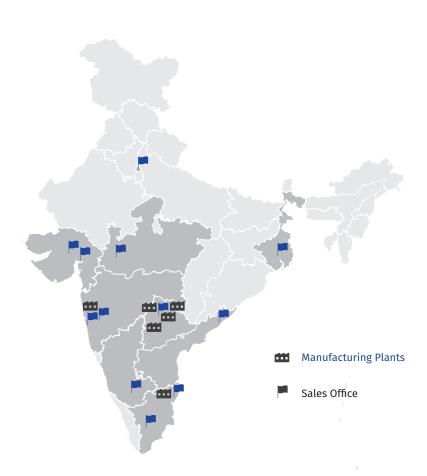
Head-quartered in Hyderabad, Telengana

Pan-India manufacturing locations in Patancheru, Isnapur, Sadashivpet, Mallapur, Velchal (Telengana), Chennai, Tarapur (Maharashtra).

Listing

Shares listed and traded actively on the Bombay and National Stock Exchanges

Market capitalisation of Rs.492.83 crores (as on 31st March 2017)



ABILITY COMBINED WITH INTENT: PENNAR'S GLORIOUS **FUTURE**

Every year, the Chairman's Address in the Annual Report for Pennar Industries provides me an opportunity to address you with the purpose of providing my views of the company's performance for the financial year and also to update you on the progress made on our goal of building a strong engineering company. As in previous years the structure of this address will be to first provide an overview of the financial performance of the company for the year.

I will be writing on each Business Units (BUs) specific performance focusing on the BUs that are well poised for growth and are expected to contribute a growing share of the consolidated company's revenue. The final part of the address will be dedicated towards addressing our Vision to evolve into a strong diversified engineering company and our expected growth trajectory for the next few years.



We achieved our highest ever sales and our highest ever operating profit in the consolidated entity Pennar Industries during the financial year 2016-2017. We achieved Gross Sales of Rs.1,71,825 lakhs and EBIDTA of Rs.17,422 lakhs.

Our EBIDTA margin for the year was 11.24%. We achieved a net profit of Rs.4,665 lakhs during the financial year.

The revenue and profitability numbers consolidate the performance of four BUs and three subsidiaries. Pennar Industries as a standalone entity consists of the following BUs:

· Systems and Projects

Railways and Solar MMS Components

· Industrial Components

General Engineering and Automotive Components

Precision Tubes

Electro Resistance Welded and Cold Drawn Welded Tubes

· Steel Products

Cold Rolled Steel Strips and Formed Sections





Pennar Industries also has three subsidiaries:

- Pennar Engineered Building Systems Limited (PEBS)
 Custom Designed Building Systems and Solar MMS
 Systems
- · Pennar Enviro Limited (PEL)

Process Engineering Plants and Specialty Additives Manufacture

· Pennar Renewables Private Limited (PRPL)

Solar Power Plant Assets (28MW)

Systems and Projects is the second largest business unit (after PEBS) in the consolidated entity for the financial year in terms of revenue and profitability. The division comprises the railways and the solar business verticals. Both these verticals have had very high growth in the past year. We expect similar growth levels to continue which could potentially make Systems and Projects the largest Business Unit soon.

The order book for the Railways vertical is expected to grow aggressively. We are expanding capacity at our Chennai and Hyderabad facility to cater to this increase. The capacity increase includes new capabilities in laser welding and cutting, expanding our stretch forming capabilities and to setup up a SS tube production line for railway interiors.

The Solar vertical has enjoyed high growth as India's grid connected solar power capacity grows. Around 7000MW of solar capacity was added to India's energy grid in the financial year. We provide Module Mounting System (MMS) components to our customers who are primarily Solar EPC players. With new capacity added at our Patancheru and Isnapur plants we expect this vertical to continue having strong growth. The implementation of GST however has removed one specific advantage that Pennar had in terms of an ability to pass on MODVAT excise credit on the sale of MMS. Prior to the implementation of GST the excise duty levied on Solar MMS products was zero and the current GST applicable rate is 18% on both our input and output this negating the advantage that we had in solar MMS sales. Nevertheless, I believe our strong manufacturing capabilities and our ability to deliver scale in solar MMS component supplies will ensure that our revenues from this vertical will continue to scale.

Our Tubes division provides precision engineered ERW and CDW tubes to a largely India based customer base. The division has succeeded in constantly adding new capacity and scaling revenue. For the last financial year the division recorded revenues of Rs. 15,518 Lakhs, a growth of 8.39% . We intend to continue building capacity in this vertical in ERW as well as downstream CDW tonnage capacity. The company has also picked up international business from Salem steel and others in tubes. In the next financial year we will commence production on our new stainless steel tube line which will allow us to further grow our addressable market size. A combination of capacity expansion in ERW and CDW, investments in stainless steel tube making capacity and targeting international markets for tubes customers will allow us to grow this BU at double digit rates over the next few years.

The Industrial Components BU services the automotive and general engineering sectors. We manufacture a

range of pressed components and hydraulic systems for our customers in this business unit. While the BU has not seen much growth in the past financial year we are hopeful that the hydraulics business vertical will allow us to bring in higher growth in this vertical.

The Steel Business unit comprises our cold rolling and roll forming operations. This is the legacy business of the company. During the financial year we added special grade cold rolling as a strong capability. In the current financial year this additional capacities and other operating efficiencies will result in substantial improvements in revenue and profitability. Thus, we are able to project that after a long impasse the Steel BU will show strong growth going forward.

Pennar Engineered Building Systems (PEBS) is a

subsidiary of Pennar Industries engaged with providing custom designed building solutions to our customers in India and the US. The subsidiary has been one of our most successful initiatives since its inception and has quickly grown to achieve gross revenue of Rs.54,761 lakhs, representing 32% of Pennar Industries' consolidated revenue. The company has commenced operations in Baroda in the past financial year and has also rapidly expanded our structural engineering services vertical which services metal building and structural fabrication companies in the US and other geographies. With GST implementation sectors such as warehousing, building construction and the capital goods sectors are expected to grow strongly over the next few years and PEBS has cohesive capabilities to take advantage of these opportunities. The company's profitability for the financial year ending March 2017 has however declined substantially even with substantial growth in revenue primarily due to a large increase in volatility in steel prices over the second half of the last financial year. We expect some of this volatility in prices – with the consequent effect on our margins - to persist in this financial year. However, the subsidiary has a strong order book, very low leverage

and new growth initiatives that will ensure growth in the next few financial years.

Pennar Enviro the second subsidiary I will be covering provides water treatment, nuclear power, fertilizer plants and other process industry solutions including design, procurement, manufacturing and site execution. The company has grown rapidly over the past few years and recorded gross revenue of Rs.11,528 lakhs for the financial year. With strong references in a range of technologies including desalination, effluent treatment and recycling, demineralization and instrumentation PEL is well placed to continue to grow revenue and profitability over the next few years.

In the last financial year we completed the execution and capitalization of our newest subsidiary Pennar Renewables Private Ltd. The company operates 28MW of solar power plant capacity in the state of Telangana at a PPA of Rs.6.45. In spite of being operationally efficient, the plants however represent a substantial investment from Pennar. The board of Pennar Industries after consultation has decided to offload these assets as the IRR for the project – while attractive and as per industry norms – is lower than the CAPEX initiatives that PIL has. Consequently, we plan to sell the subsidiary in the coming financial year and we expect a substantial capital gain from this sale.

Our vision at Pennar is to continually invest in capability and capacity expansions. We constantly evaluate our addressable markets for growth opportunities and once we reach market share of around 10% in any vertical we look at potential avenues for increasing addressable market size. These investments have to meet certain boundary conditions we set up such as an ROCE of over 20% and an EBIDTA margin that is above 10% at a minimum. Once these conditions are achieved we focus on investing and quickly implementing these projects and focus on making the projects breakeven and deliver payback as soon as possible.