



IMAGINEERING A BETTER WORLD

ANNUAL REPORT 2019-20
PENNAR INDUSTRIES LIMITED

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<https://www.pennarindia.com>



IMAGINEERING A BETTER WORLD

Since the beginning, our journey to becoming an engineering powerhouse was built on persistence and grit. Today, we stand tall with an unmatched portfolio of products and solutions focused on serving high growth sectors of India, and advanced markets such as the USA and Europe.

In our quest to create sustainable value, we have been expanding our operational footprint nationwide and globally, setting new benchmarks for operational efficiencies, investing in global resources and redefining paradigms.

With agility and resilience ingrained, we are focused on building a quality business, where we give importance to value over volume. Our efforts are aligned towards growing our high margin business segments, carefully targeting interesting opportunities to widen our addressable market.

Under the cloud of a global pandemic, we are quickly adapting to the new normal with prudence and ingenuity, confident on delivering consistent performance in the medium term. Being a smart, forward-thinking engineering products and solutions company, we remain undaunted by the recent events, and we are inspired and humbled by the way our people have stood up to this challenge. Our time-tested business model, combined with our proven track record of strong operations, gives us the confidence to serve our stakeholders well.

We have seen and endured several challenging times during our 30 years of history, only to come out stronger at the other end. Our sustained vigour is the result of our cautious capital allocation and risk management frameworks. The resilient strength of our company gives us a valid license to dream the future with positivity. We welcome all our stakeholders to join us in becoming a solutions powerhouse.

PENNAR IN PERSPECTIVE



Who we are

Pennar Industries Limited is one of the leading engineering organisations in India well known for its expertise in providing engineered products & services. An epitome of quality, precision, and perfection, Pennar is driven by an unrelenting desire to excel with experience spanning over three decades.

What we do

Today, with an annual production capacity of more than 350,000 MTPA, we are a multi-location, multi-product company manufacturing precision engineering products such as: Cold Rolled Steel Strips, Precision Tubes, Railway wagons / Coaches, Pre-Engineered Building Systems, Sheet Metal Components, Road Safety Systems, etc. Recently we have also added Hydraulics and Warehousing solutions as two new products in our portfolio.

Pennar in Numbers

Total Income (Net)

₹21,268million

CAPEX

₹334million

Revenue from Operations

₹21,066million

EBITDA Margin

9%

Profit After Tax (PAT)

₹534million

CSR Outreach

>17million

Our Manufacturing Presence



ENGINEERING EXCELLENCE

Established in 1988, Pennar is headed by **Mr. Nrupender Rao (Chairman), Mr. Aditya Rao (Vice Chairman and Managing Director)** and is managed by experienced professionals. Being one of the leading engineering company, our business philosophy strives on capital efficiency and accelerated growth. This serves as a key differentiator and consciously adds value to all of our processes and stakeholders.

Our Vision

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

Our Mission

Our mission is to leverage modern infrastructure, technical expertise and decades of experience to provide high quality and cost-effective products to our customers. We are committed to delivering premium quality products to our customers. We work closely with shareholders, suppliers, customers and employees to pledge high economic returns.

We make difference through:



Pennar Edge



Technology-driven

Having a strong technology focus, it has invested in state-of-the-art manufacturing facilities resulting in customisation of products. Besides, the Company created a repository of over 2,500 tools and dies, enabling it to manufacture a large product portfolio.



Value-added products

The Company increased the proportion of value-added products in its revenue mix resulting in a higher margin-accretive product mix and improved realisations.



Quality focus

The Company is committed to provide quality products to customers. All manufacturing units are ISO 9001:2008-certified, resulting in a high-quality discipline.



High-growth markets

The Company focuses on high-growth sectors of the Indian economy, such as infrastructure, railways, construction and automobiles, which the government has prioritised for increased investments.



Blue-chip clients

The Company has a blue-chip client roster, which includes TATA Motors, L&T, Ashok Leyland, ABB, Moser Baer, Schneider Electric, Tata BP Solar, among others. The five leading clients accounted for 25% of the Company's revenues. The building subsidiary developed prestigious customers like L&T, Ultratech Cement, Dr. Reddy's Labs, My Home Group, Reliance Retail and others



Diversified product mix

The Company's portfolio comprises over 1,000 products, across diverse sectors like railways, automobiles, general engineering, building and construction among others, thus de-risking the business.



A relentless focus on cost management and fiscal prudence, value engineering and customer partnering has enabled us to record a creditable performance demonstrating our strength despite being in a challenging year.

MESSAGE FROM THE CHAIRMAN



Towards the end of the financial year, as the pandemic hit our business, we quickly re-directed our priorities towards protecting the business and creating enablers that would help us to emerge stronger through a prolonged crisis

Cash and cash equivalent

₹390million

EBIDTA Margin (%)

9%

Dear Shareholders,

As I am writing this, I hope you all are safe and in the best of health. This is a challenging and unprecedented time for all of us. The severity, and longevity, of the pandemic's impact on the domestic and global economy, remains uncertain. We are now several months into a global pandemic, and this unprecedented crisis has reiterated the importance of resilience, as a country, as a business and as individuals. The success of our business is now deeply intertwined with the progress of our customers, our ability to innovate and deliver consumers expectations and the well-being of our communities. The year saw a challenging business environment with lower GDP growth and slowdown in consumption. This resulted in a weakening consumer sentiment and lower demand for the categories in which we operate. The onset of COVID-19 and the resultant national lockdown towards the end of the fiscal year further exacerbated the situation.

OUR FINANCIAL PERFORMANCE

Our performance for the financial year reflected stability, despite the challenging times. During FY2019-20, our total revenue from operations decreased by 1% at ₹ 21,066 million as compared to ₹ 21,331 million in the previous year. Our EBITDA margin was at 9% as of FY2019-20 while gross margin improved by 171 bps YoY. We sustained our track record of strong cash generation, with cash and cash equivalent at ₹ 390 million. Our stable performance gives further credence to our approach to pursue quality growth that seeks to produce both good top and bottom-line numbers.

BUILDING RESILIENCE FOR LONG-TERM GROWTH

During the year, we focused on building resilience for long term growth in each of the business with strategic capacity expansions and creating new process capabilities. Further, we continued our efforts in expanding our global footprint with new market and customer development in the US, APAC, MENA and European regions. Our acquisition of One works BIM Technologies,

which is engaged in supporting clients through the technical processes of Building Information Modelling Management and Data Collection, has enabled us to enter the European markets with niche engineering capabilities.

Towards this end, we focused on a strategic deepening of our end-user engagement, expanding the distribution channel and ramping up our presence in new, high potential areas, in addition to improving margins with various cost management initiatives and better working capital management. A relentless focus on cost management and fiscal prudence, value engineering and customer partnering has enabled us to record a creditable performance demonstrating our strength despite being in a challenging year.

UNITED AGAINST COVID-19

Consequent to the outbreak of the COVID-19 pandemic and the lockdown introduced by the Central and State Governments, the operations in our manufacturing plants situated across various locations in India had to be shut down or were disrupted towards the latter half of the second fortnight of March 2020 onwards, and continued through the mid of May 2020.

With the easing in the lockdown/ curfew and the Governments permitting operations to be resumed with necessary permission from the local authorities, we have resumed operations from mid of May 2020, in a partial manner, in all the plants. As the situation improves, we expect to scale up operations. Moreover, we have taken various measures to safeguard the health and safety of our employees and further to ensure total adherence to the guidelines issued by the Central and respective State Governments besides the local authorities at all our business locations.

Going forward, we will continue our efforts towards our vision to evolve into a globally reputed, diverse and innovative engineering company. We thrive on having a strong and enduring relationship with our customers, based on the quality of our products and services.

IN CLOSING

Towards the end of the financial year, as the pandemic hit our business, we quickly re-directed our priorities towards protecting the business and creating enablers that would help us to emerge stronger through a prolonged crisis. We will continue to dynamically manage the situation in the near term while staying true to our longer-term strategy.

In a year as difficult as this, I am particularly grateful for the guidance of the Board and the unwavering energy and commitment of our people and business partners. I look forward to their continued support as we step into the times ahead.

Sincerely,

Nrupender Rao
Chairman



NRUPENDER RAO Chairman

MESSAGE FROM THE VICE CHAIRMAN & MANAGING DIRECTOR



We endeavour to move up the value chain by strengthening the niche engineering capabilities by expanding our product offerings and engineering capabilities across multiple sectors, and evolve component manufacturing towards higher value addition & precision engineering.

Delivered Cumulative
Products (PEBS)

4,19,518 MT

Completed Projects
in FY2020 (PEBS)

699

Dear Shareholders,

FY2020 was a challenging year for the Indian economy with the macroeconomic slowdown causing the GDP growth plummeted to 4.2%. The Indian economy began the year with a slowdown in core sectors such as automotive, construction, mining, iron and steel. It was further accentuated with muted market growth, credit stress and deferred discretionary spends dictating customer sentiment. Signs of a revival were evident in the second half of the year with manufacturing activity showing a moderate increase based on supportive Government policies to accelerate growth. However, the pandemic and the resultant lockdown in March brought all business activity to a standstill with the GDP plunging to 1.9% for fiscal 2019-20.

OUR DIVISIONAL PERFORMANCE AND OUTLOOK

The Indian automotive sector witnessed a weak market response. The industry slowdown impacted our presence in the Auto sector due to reduced offtake from OEMs recalibrating their capacity utilisation and liquidation of the inventory levels for various OEMs. Despite the fall in the order book, we increased our customer engagement, and leveraging our engineering expertise to develop new products for the BS-VI migration in Passenger Vehicles, tubular front fork products for the two-wheeler segment, and safety-critical parts in seating solutions for both the Indian and global market.

The Railway sector is a major growth engine for us. With the Government of India's focus on the expansion and modernisation of the rail network and its 'Make in India' drive, the sector is poised for accelerated growth. We have established ourselves as a trusted supplier of quality assemblies and components for the Railways, and we are well-positioned to capitalise on the opportunity from the burgeoning growth potential of the sector.

Our ability to adapt to a changing environment and embrace new technologies has always been our forte. We are focusing on our inherent strength and strong business fundamentals to build a resilient organisation.

Performance Highlights for Railway Products

During the year, we ensured the supply of critical structural railway components (coaches, wagons, other parts) and generated gross revenues of ₹ 4,026 million delivering 6.5% YoY growth in FY2020. In total, we catered to 06 existing customers, with major customers like Integral Coach Factory and Modern Coach Factory. Moreover, our supply of critical industrial components (to Automobile & White Goods sectors) generated gross revenues of ₹ 1,233 million while the supply of precision tubes witnessed gross revenues of ₹ 2,473 million. Further, the supply of other fabricated products such as ESP electrodes, building materials, special grade CRSS, and solar MMS, amongst others with revenues of ₹ 6,299 million.

Performance Highlights of Pre-Engineered Building Products

We have shown consistent growth over the last ten years in Pre-Engineered Building Products. From FY2010 to FY2020, we have completed over 669 projects catering to more than 650 customers with executed cumulative orders worth ₹ 48,773 million and delivered cumulative products of 4,19,518 MT.

During FY2019-20, Pre-Engineered buildings generated gross revenues of ₹ 7,941 million, delivering 13.27% YoY growth. During the year, the order book for Pre-Engineered buildings stood at ₹ 5,228 million as on 31st March 2020, that consisted of new order inflows of ₹ 1,296 million and repeat order inflow of ₹ 3,932 million. Engineering Services generated ₹ 300 million in revenue, delivering 38.77% YoY growth in FY2019.